

# How and Why has Microfinance Reached the New Zealand Policy Agenda?

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## **Abstract**

The New Zealand government's involvement in the provision of microfinance for people on low incomes raises questions about how particular ideas capture the attention of politicians and policymakers, and why governments choose particular policies over others.

This policy analysis uses a multiple streams framework to explore how and why this microfinance policy reached the government's agenda. The research findings support the general theoretical idea proposed by multiple streams - that a problem, a policy and a political stream converge in order for an idea to reach the policy agenda. It finds that for a National government cognisant of the issues caused by problem debt and poverty, microfinance presented itself as a quick, easy solution.

This thesis contributes to the understanding of applied policy research in New Zealand. It shows that academic theories can be usefully applied to real world examples. It also provides insights for people wishing to further understand the policy process, and potential actions for those wishing to influence it.

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I wish to dedicate this work to my darling Dad, who is so dearly missed by us all.

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## Chapter One – Introduction

Microfinance has been described as a “silver bullet” to address the problem of poverty in the developing world<sup>1</sup> so it is little wonder that it has grown from those origins to begin addressing the problem of poverty in more wealthy economies. Microfinance was developed to provide small amounts of affordable credit to those who would not otherwise have access to it and in August 2014, the Ministry of Social Development in New Zealand announced that it would be investing in a 12 month ‘Community Finance Initiative’ pilot; a microfinance programme to provide small loans “to help people who sit on the margins of the banking system.”<sup>2</sup>

People on the margins of the banking system are often described as ‘financially excluded’<sup>3</sup> and, in New Zealand, they have been targeted by unscrupulous third tier lenders or ‘loan sharks’ who take advantage of their desperation and lack of options for finance or credit. Repaying debt to loan sharks has been identified as a significant contributor to financial hardship for the most financially vulnerable New Zealanders.<sup>4</sup> By providing an alternative form of credit with either low or no interest, and no fees or penalties, proponents of microfinance hope to undermine these predatory lenders.

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<sup>1</sup> Adler and Waldschmidt, “‘Microfinance 3.0’ – Perspectives for Sustainable Financial Service Delivery,” 123.

<sup>2</sup> The Salvation Army, “Low Income Loan Scheme Aims to Build Opportunity and Hope.”

<sup>3</sup> Demirguc-Kunt and Klapper, “Measuring Financial Inclusion: The Global Findex Database.”

<sup>4</sup> Expert Advisory Group on Solutions to Child Poverty, “Solutions to Child Poverty in New Zealand: Evidence for Action.”



The Community Finance Initiative is a government/NGO/private partnership between the Ministry of Social Development, the Bank of New Zealand, Good Shepherd New Zealand and the Salvation Army.<sup>5</sup> The initiative provides NILS no interest loans and StepUP low interest loans; two products developed in Australia by Good Shepherd Microfinance. The Ministry funds operating costs, the Bank provides loan capital and Good Shepherd New Zealand manages the service and subcontracts the Salvation Army to provide the service to the public. Good Shepherd New Zealand provides the link to Good Shepherd Microfinance in Australia, and provides operational facilities and support such as policy development and loan management systems.

The fact that a proposal for a microfinance initiative began to be considered as a policy solution raises questions for policymakers, as well as interest groups that wish to see their proposals realised. The purpose of this applied policy analysis is to begin to explore how and why this proposal reached the policy agenda in New Zealand and, in the process, answer some of the following questions: What drives people in and around government to promote one proposal over another? Why was the problem of not being able to access credit seen as important enough to provide a solution to, when so many other of society's problems are not? Are some lobbyists just more skilful at having their views heard and their interests prioritised? Multiple streams theory provides a framework for this analysis. It is one of a number of theories developed in the policymaking sphere to begin to answer some of the questions about how policy is developed. It specifically focusses on the agenda-setting stage of policymaking, when people in and around government begin to pay serious attention to a specific policy idea or proposal.<sup>6</sup> Chapter two expands on this concept to provide a more detailed description of policymaking theories, including the multiple streams theory, as well as describing its origins, its criticisms and its applications.

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<sup>5</sup> Ministry of Social Development, "Community Finance Partnership Provides Affordable Credit."

<sup>6</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 1.

## **What is Microfinance?**

Microfinance is a term that is most often associated with the provision of small enterprise loans to enable people, usually women in developing countries, who would otherwise not have access to credit so they can start their own businesses, secure their own income streams and begin the journey to financial independence. The reason for this association is largely due to the work of the Grameen Bank in Bangladesh and its high-profile, Nobel Laureate founder Muhammad Yunus. The Grameen Bank was part of the first wave of modern microfinance, originating in the late 1970s, founded under the assumption that providing credit to the poor was a social goal that would also stimulate the economy through the support of small business enterprise.<sup>7</sup>

Developed economies have also turned to microfinance to address issues relating to financial exclusion and hardship, and microfinance schemes are found in a number of countries, including the United Kingdom, Canada, the United States and Australia. A number of these retain their focus on enterprise loans, such as Grameen America, while others focus on providing consumption loans for essential items that might otherwise be provided by fringe lenders, or forgone. In Australia, Good Shepherd Microfinance's programmes offer such loans, for items such as furniture and whiteware. In New Zealand, prior to the implementation of the Community Finance Initiative, two agencies, the Nga Tangata Microfinance Trust and Aviva, had already begun providing Good Shepherd Microfinance's NILS loans using Kiwibank loan capital.

## **Good Shepherd**

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<sup>7</sup> Schmidt, "Core Values of Microfinance Under Scrutiny," 45.

New Zealand's Community Finance Initiative offers two Good Shepherd Microfinance products that have been provided in Australia for a number of years. NILS no interest loans are loans of relatively small amounts, under \$1000, for purchasing essential goods and services such as whiteware and appliances, and Step UP loans are targeted at a slightly higher amount of between \$1000 and \$5000, and are predominantly taken out to purchase cars.<sup>8</sup>

The role of Good Shepherd New Zealand has changed during the course of this research as microfinance has expanded in New Zealand. Prior to the implementation of the Community Finance Initiative, the Good Shepherd New Zealand Trust undertook predominantly donor and advocacy work, however the renamed Good Shepherd New Zealand is now contracted by the Ministry of Social Development to manage the initiative.<sup>9</sup> Good Shepherd New Zealand has assumed much of the responsibility for accreditation, monitoring and development that was earlier based in Australia, with Good Shepherd Microfinance. Good Shepherd New Zealand and Good Shepherd Microfinance are divisions of the Good Shepherd network, an international network of charitable organisations whose work expands on the achievements of the Sisters of the Good Shepherd, a Catholic order founded in France in 1835. Good Shepherd Australia New Zealand provides governance oversight for both Good Shepherd New Zealand and Good Shepherd Microfinance.

Good Shepherd Microfinance approaches lending from a community-based perspective by accrediting existing not-for-profit community organisations to provide its microfinance services; in the case of the Community Finance Initiative, the Salvation Army is accredited to provide loans. Organisations that provide a diverse range of services such as domestic violence education, budgeting advice, and counselling, are also able to offer financial support in the form of fair and affordable credit to their existing client base. This reflects Good Shepherd Microfinance's belief that

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<sup>8</sup> Good Shepherd Youth and Family Service and National Australia Bank, "A Step in the Right Direction? A Report into the Step UP Loan Program, 2004-2007."

<sup>9</sup> Ministry of Social Development, "Community Finance Partnership Provides Affordable Credit."

the best way to address financial exclusion is to provide a holistic approach to client wellbeing.<sup>10</sup> By late 2013, more than 650 different organisations varying in size and structure were providing microfinance services to low-income Australians.<sup>11</sup> Good Shepherd Microfinance has been able to achieve this scale thanks to its relationship with the Bank of New Zealand's parent company, National Australia Bank, that is now worth more than AUD130 million.<sup>12</sup>

Chapter three furthers the discussion on microfinance with a review of the literature on microfinance around the world, including research on Good Shepherd Microfinance's programmes. The rest of this chapter provides an outline of the method that has been used to undertake this research.

## **Research method**

Applied policy research differs from other types of research because it requires specific information and has "potential for actionable outcomes."<sup>13</sup> Applied policy research allows the researcher to examine possible causes of and reasons for particular situations, such as why decisions are made or not made.<sup>14</sup> This thesis explores the question "how and why has microfinance reached the New Zealand policy agenda?" in order to better understand what influences policy decision-making in New Zealand. To guide the practical aspect of the data collection and analysis, this study follows the case study method outlined in *Case Study Research*, first published in 1984 by Robert Yin. Applied policy research is increasingly reliant on qualitative methods to best understand "complex behaviours, needs, systems and cultures"<sup>15</sup> and the large amount and variety of data inherent in a

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<sup>10</sup> Landvogt, "Money, Dignity and Inclusion: The Role of Financial Capability," 20.

<sup>11</sup> Cowling et al., "Putting Good Practice at the Heart of NILS."

<sup>12</sup> Good Shepherd Microfinance, "Our Partners." <http://goodshepherdmicrofinance.org.au/our-partners> (accessed 16 December 2014)

<sup>13</sup> Ritchie and Spencer, "Qualitative Data Analysis for Applied Policy Research," 306.

<sup>14</sup> Ibid., 307.

<sup>15</sup> Ibid., 305.

qualitative study is, according to Yin, one of the case study's strengths.<sup>16</sup> Case studies are also the preferred method when "'how' and 'why' questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context."<sup>17</sup>

The theoretical framework for this case is John Kingdon's multiple streams theory. Kingdon's theory is based on the idea that there are three streams - a problem stream, a political stream and a policy stream - that must converge before a policy proposal can reach the agenda: there must be a problem that needs to be addressed; the policy itself must meet certain criteria; and, there must be an alignment with the political values of the politicians, or the mood of the public. A brief consideration of the microfinance proposal suggests that it could indeed be suitable for a multiple streams framework: in the problem stream, there are stories in the media of 'loan sharks' preying on vulnerable, low income people while taking advantage, according to some critics, of a market that has been significantly deregulated since the 1980s; in the policy stream, there is microfinance, an alternative form of credit for people who otherwise would have little choice, that comes with a track record of international success; and in the political stream, it appears that there is a fit with the ideology and values of the current, centre-right National government as the requirement to pay back the loans aligns with the idea of personal responsibility.

While this case study is not strictly a participant-observer study in the traditional, anthropological sense, there is an aspect of participant-observer research that is relevant as the researcher was also working at a Christchurch non-profit organisation, Aviva, to run its Good Shepherd Microfinance accredited NILS pilot programme. While cognisant of the potential for bias, the researcher had no role as either an advocate or a decision-maker before the policy reached the government agenda.

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<sup>16</sup> Yin, *Case Study Research*, 2003, 8.

<sup>17</sup> *Ibid.*, 1.

There are positive aspects of the researcher in a participatory role, including a broad understanding of what is happening in microfinance in New Zealand, and the objectives of those involved, based in a real world context.<sup>1819</sup>

### ***Data Collection***

#### *Documentation*

Documentation will almost always be an important data component of case studies.<sup>20</sup> Documents allow a researcher to corroborate, or otherwise, information gleaned from other sources. It is important to remember that documentation is often biased or edited to suit specific requirements, and documents need to be considered alongside the audience they were written for.<sup>21</sup> The documents analysed in this study included reports, submissions, media articles and official government records that provide insight into the development of the microfinance policy.

#### *Interviews*

Interviews can provide a level of “individual insights and rich depth” that is difficult to garner from document analysis alone.<sup>22</sup> Interviews allow us the opportunity to gain an understanding of the perspective of those people making decisions or seeking to influence others, and discover more about the “inner workings of the political process”.<sup>23</sup> Yin notes that not only are interviews insightful, they are able to be specifically targeted.<sup>24</sup> In this case, the interviewees were identified from the initial document analysis as key actors in the policy process, and were approached for their

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<sup>18</sup> The organisation was aware the research was being undertaken by their employee.

<sup>19</sup> Approval to conduct this research was sought from the University of Canterbury’s Human Ethics Committee, and was granted on 2 July 2015.

<sup>20</sup> Yin, *Case Study Research*, 2014, 105.

<sup>21</sup> Ibid., 108.

<sup>22</sup> Lilleker, “Interviewing the Political Elite: Navigating a Potential Minefield,” 208.

<sup>23</sup> Ibid.

<sup>24</sup> Yin, *Case Study Research*, 2014, 106.

expert knowledge on the topic. The interview subjects were chosen due to their apparent influence on the policy process; because of this, literature on interviewing 'elites' has been referenced here.<sup>25</sup> Although Harvey argues there is no specific definition for the term elites, scholars use common themes such as highly educated, professional and influential, which correlates with the interview subjects in this project.<sup>26</sup>

According to Yin, the interview style most suited to case studies is one that is guided, but not entirely structured.<sup>27</sup> This case study used a 'general interview guide approach', which requires more structure than an informal interview, but still allows a high degree of flexibility.<sup>28</sup> The researcher personalised the interview questions to the respondents and tailored supplementary questions to the content of the responses, however the technique attempts to ensure that the same overall information is gleaned from each interviewee. Allowing respondents to express their viewpoint and explain "why they think what they think" is especially important for elites and highly-educated interview subjects.<sup>29</sup>

### ***Case Study Protocol***

A case study protocol contains the "procedures and general rules" used to guide the research and is an important component in ensuring the reliability of a case study.<sup>30</sup> The case study protocol is attached as appendix A of this thesis for interested readers.

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<sup>25</sup> Lilleker, "Interviewing the Political Elite: Navigating a Potential Minefield."

<sup>26</sup> Harvey, "Strategies for Conducting Elite Interviews."

<sup>27</sup> Yin, *Case Study Research*, 2014, 110.

<sup>28</sup> Turner, "Qualitative Interview Design: A Practical Guide for Novice Investigators," 755.

<sup>29</sup> Aberbach and Rockman, "Conducting and Coding Elite Interviews," 674.

<sup>30</sup> Yin, *Case Study Research*, 2014, 84.

## Chapter Outline

As noted earlier, the following chapter comprises a review of theories of the policy process, including multiple streams theory and its origins. Chapter three reviews the literature on microfinance, and includes a discussion of the financial sector and its role in society. By providing credit, microfinance is a financial product and consequently part of the financial sector, therefore it is important to address this aspect. Chapters four to six analyse the microfinance initiative within the multiple streams framework, with each chapter looking at microfinance through the lens of each particular stream. Chapter four defines the problem stream, chapter five the policy stream, and chapter six the political stream, as they relate to microfinance. While Kingdon usually outlines the policy stream before the political stream, it has been more appropriate to present the policy stream later because the reader is provided some background by the political stream. Chapter seven analyses the microfinance initiative in the context of the remaining elements of multiple streams theory, which includes the involvement of policy entrepreneurs advocating for their proposal, and the 'coupling' or joining together of the three streams. As all policies have weaknesses, the weaknesses relevant to this microfinance initiative are addressed in chapter eight. Chapter nine surmises that this research provides useful insights into how this initiative reached the agenda, and policymaking more generally, before concluding with suggested areas for further development of microfinance and related policies.



## **Chapter Two - The Policy Process; A Review of the Literature**

This chapter begins by providing a background of policy-making theory, including the 'garbage can' model that preceded multiple streams theory. Multiple streams theory is then described in detail, with consideration for each individual stream, before an evaluation of some of the points made by its critics. The chapter concludes with an explanation on how this theory will be used in the applied policy context of this research paper.

### **Theories of the Policy Process**

Colebatch argues that the dominant view of the policy process is one in which a government creates policy in a top down, authoritarian manner, making rational choices to solve problems.<sup>31</sup> More in-depth policy research challenges this idea, instead presenting a picture of the policy arena as "complex and long-running processes of interactions among specialists" from which decisions emerge.<sup>32</sup>

According to Sabatier, the 'stages heuristic' first developed by Laswell in the 1950s was the most significant theory of the policy process until the mid-1980s. By then the theory had been widely critiqued, with dissatisfaction centred on the charge that the stages heuristic contained no "causal mechanisms."<sup>33</sup> Arguably it was this dissatisfaction that led to the creation of new theories in search of more persuasive explanations of the policy process.<sup>34</sup> The stages heuristic was valuable however, for dividing policy making into stages, "usually agenda setting, policy formulation and legitimization,

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<sup>31</sup> Colebatch, "Policy Analysis, Policy Practice and Political Science," 14.

<sup>32</sup> Ibid., 15.

<sup>33</sup> Nowlin, "Theories of the Policy Process," 41.

<sup>34</sup> Ibid.

implementation, and evaluation,” and as they were more manageable, a number of important theories were subsequently developed within each of these stages.<sup>35</sup>

Also in the 1950s, Charles Lindblom developed the incremental approach to policy making<sup>36</sup> by observing that a large amount of policy is created in small, incremental steps. There are three different ways in which incrementalism occurs in policymaking: on fundamental issues there is wide consensus among the population, and therefore policies on different sides of the political spectrum are only incrementally different from each other; that within parties incremental adjustments are made to parties’ own policies rather than wholesale changes; and that a policy is designed to address a problem, which is then trialled, adjusted and trialled again.<sup>37</sup>

In the agenda-setting stage, Baumgartner and Jones developed ‘punctuated equilibrium’ theory which posits that long periods of incremental change in policy making are punctuated by short bursts of significant policy change.<sup>38</sup> Also in the agenda-setting stage, multiple streams theory argues that agendas are set when separate streams of problems, political factors and policy proposals all converge, and a ‘window’ thus opens for the policy to reach the agenda. The origins of multiple streams can be found in the garbage can model of organisational choice.

### **The Garbage Can Model**

The garbage can model was developed by Cohen, March and Olsen in the early 1970s. Developed from research in education, the garbage can model describes decision-making in organisations where decisions compete for attention and resources.<sup>39</sup> The model rejects the notion of a “tidy

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<sup>35</sup> Sabatier, “The Need for Better Theories,” 6.

<sup>36</sup> Lindblom, “Policy Analysis.”

<sup>37</sup> Ibid., 300.

<sup>38</sup> Sabatier, “The Need for Better Theories,” 9.

<sup>39</sup> Cohen, March, and Olsen, “‘A Garbage Can Model’ at Forty: A Solution That Still Attracts Problems,” 22.

world” in which problems are solved by rational choice and instead suggests that “participants, problems, choices and solutions each have the capacity to connect to any of the others.”<sup>40</sup> They argue that the decision-making process in organisations is “organized anarchy” consisting of preferences that are unclear and inconsistent, a lack of understanding of the process by members and constantly changing participants in the decision-making process.<sup>41</sup>

Cohen, March and Olsen focus on four independent streams within the garbage can: problems, solutions, participants and choice opportunities. There is a complex interplay among these streams that determines the way in which decisions are made; the choices available, the problems faced, the “solutions looking for problems” and various demands on participants.<sup>42</sup> The garbage can model challenges the assumption that a problem arises and a policy decision follows in a linear fashion, and argues instead that a decision is made in a context of choice created by “shifting combinations of problems, solutions and decision-makers.”<sup>43</sup>

## **Multiple Streams**

It has been said that multiple streams theory focusses on the “organized” aspect of organised anarchies.<sup>44</sup> While the garbage can model sees the streams combining primarily by chance, multiple streams refines this idea further and posits that the streams are coupled, quite purposefully, by policy entrepreneurs.<sup>45</sup> Whereas the garbage can model has been criticised for lacking empirical evidence, the empirical validation for multiple streams theory is derived from hundreds of interviews undertaken by John Kingdon across the health and transportation sectors in the federal

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<sup>40</sup> Ibid.

<sup>41</sup> Cohen, March, and Olsen, “A Garbage Can Model of Organizational Choice.”

<sup>42</sup> Ibid., 16.

<sup>43</sup> Ibid.

<sup>44</sup> Aberbach and Christensen, “Radical Reform in New Zealand,” 413.

<sup>45</sup> Zahariadis, “The Multiple Streams Framework: Structure, Limitations, Prospects,” 79.

government of the United States.<sup>46</sup> These interviews formed the basis for multiple streams theory which was detailed in his book, *Agendas, Alternatives and Public Policies*, first published in 1984 with a second edition published two decades later.

Kingdon's metaphors are of policy formation as a "labyrinth" of processes<sup>47</sup> and policy ideas floating around in a "primeval soup."<sup>48</sup> He describes the way that "subjects drift onto the agenda and drift off," adding that it is "difficult even to define agenda status."<sup>49</sup> Kingdon determines that the agenda is "the list of subjects or problems to which governmental officials, and people outside of government closely associated with those officials, are paying some serious attention at any given time."<sup>50</sup>

Known as multiple streams or policy streams theory,<sup>51</sup> the key factors in this process are made up of three individual "process streams" in policy formation that develop independently of each other.<sup>52</sup> The streams are called the problem stream, the policy stream and the politics stream. Anytime these three streams come together, and a policy window opens, the most significant changes in policy formation occur. While Kingdon may claim to focus on the organised aspects, Sabatier believes that "serendipity and chance" are still significant factors in the coming together of the streams.<sup>53</sup>

There are "five structural elements" to multiple streams framework: the problem stream, the policy stream, the political stream, policy windows, and policy entrepreneurs.<sup>54</sup>

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<sup>46</sup> Ibid., 80.

<sup>47</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 18.

<sup>48</sup> Ibid., 116.

<sup>49</sup> Ibid., 2.

<sup>50</sup> Ibid., 3.

<sup>51</sup> Lancaster, Ritter, and Colebatch, "Problems, Policy and Politics."

<sup>52</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 19.

<sup>53</sup> Sabatier, "The Need for Better Theories," 12.

<sup>54</sup> Zahariadis, "The Multiple Streams Framework: Structure, Limitations, Prospects," 70.

## The Problem Stream

While there are always problems in a society, the fact that some problems gain the attention of policy makers and others do not is an important consideration.<sup>55</sup> Problems are conditions that people have defined as problems subjectively, by making comparisons, for example with other countries or with their own values.<sup>56</sup> Problems are brought to the attention of public officials by the use of indicators, specific crises or events and by feedback from people involved in relevant situations.<sup>57</sup> While crises and major events can also help draw attention to a problem, issues that are more prevalent and more visible in the public domain do not need as many crises to attract attention.<sup>58</sup> Policy entrepreneurs can draw attention to problems, as can the media.<sup>59</sup>

One of the ways problems, and the scale of problems, are identified is by regular monitoring that shows changes and patterns in certain indicators; another is studies that are conducted by a variety of agencies.<sup>60</sup> Importantly Kingdon notes, that studies and surveys do not determine that any given situation is a problem, but the way it is interpreted does. Value judgements are applied to situations and to indicators to manipulate people in and around government.<sup>61</sup>

Feedback is also an important component of identifying problems; policy analysts and bureaucrats receive feedback about how programmes or policies have been implemented. Reports of things not working, for example unintended consequences or not achieving stated goals, become an important way of establishing problems.<sup>62</sup>

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<sup>55</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 90.

<sup>56</sup> *Ibid.*, 19.

<sup>57</sup> *Ibid.*, 113.

<sup>58</sup> *Ibid.*, 98.

<sup>59</sup> Zahariadis, "The Multiple Streams Framework: Structure, Limitations, Prospects," 72.

<sup>60</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 91.

<sup>61</sup> Zahariadis, "The Multiple Streams Framework: Structure, Limitations, Prospects," 71.

<sup>62</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 100.

## **The Policy Stream**

Alternatives are generated in the policy stream. Kingdon argues that entirely new policy ideas do not emerge from scratch, rather they develop, interact and amalgamate to form ideas that might become a possible policy solution. His primeval soup metaphor lends itself to his assertion that ideas float around and evolve, rather than follow a linear, “rational” progression.<sup>63</sup> Policy communities comprised of specialists, analysts, academics, consultants and other interested actors, debate, discuss and analyse these ideas amongst each other and sometimes there is an element of gradual acceptance of the appropriate solution. Worthwhile solutions will have addressed concerns about budget and other future constraints that may impinge on their effectiveness.<sup>64</sup> Kingdon argues that while political scientists are often looking at the role of power and influence in promoting policies, often the content of policies is the important consideration.<sup>65</sup>

## **The Political Stream**

Kingdon describes the politics stream as an “important promoter or inhibitor of high agenda status”.<sup>66</sup> While in the policy stream an audience might be softened up towards a proposal, in the political stream, the strategy engaged is much more likely to be bargaining.<sup>67</sup> At a certain point in the process, the impact of “snowballing” and “bandwagons” come in to play as others observe momentum on an issue and do not want to miss out on the benefits.<sup>68</sup>

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<sup>63</sup> Ibid., 124.

<sup>64</sup> Ibid., 137.

<sup>65</sup> Ibid., 127.

<sup>66</sup> Ibid., 163.

<sup>67</sup> Ibid., 159.

<sup>68</sup> Ibid., 161.

The political stream comprises of: “the national mood, pressure-group campaigns and administrative or legislative turnover.”<sup>69</sup>

### ***National mood***

Kingdon describes the national mood as a general mood or climate in the country. Politicians gauge the mood of their constituents through communication and meetings, and bureaucrats take their cues from politicians. Sometimes the mood can be influenced by political reporting or assumptions made following an election. According to Kingdon, people closely involved in government believe that the national mood is an important factor in policy formation: “A shift in climate...makes some proposals viable that would not have been viable before, and renders other proposals simply dead in the water.”<sup>70</sup>

Politicians “judge their constituents’ mood” by attending meetings, reading correspondence, and listening to members of the public, and in turn, discuss their perceptions with government officials.<sup>71</sup> Government officials also hear from interest groups, political activists and attend meetings, as well as observing media coverage of issues. Similarly, politics may shape the national mood. Kingdon uses the example of the election of Ronald Reagan and the subsequent assumption that the national mood must have become more conservative.<sup>72</sup> It is this sense of the national mood as determined by people in and around government that serves to ensure some policy items receive attention and others do not. However, it is also important to note that the national mood can also be perceived as a constraint, and can just as easily ensure that a particular policy is abandoned or at least put on the back burner. Kingdon provides the example of anti-government sentiment in the United States in the

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<sup>69</sup> Zahariadis, “The Multiple Streams Framework: Structure, Limitations, Prospects,” 73.

<sup>70</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 149.

<sup>71</sup> Ibid.

<sup>72</sup> Ibid.

1970s acting as a constraint against proposals that required new spending and increased regulation.<sup>73</sup>

### ***Pressure Groups or Organised interests***

As people with a role in government “perceive and react” to the actions of lobbyists and pressure groups their influence also becomes part of the politics stream.<sup>74</sup> An integral part of this process is the appearance of consensus or conflict among the political groups. Consensus among groups becomes a significant force towards a particular issue whereas conflict among groups is an indicator of the type of trade-offs that might need to be made. How those in government form their perception of which side has support and which doesn’t is difficult to ascertain, however Kingdon points to two factors that are important. One is the issue of communication, for example that the side that is able to make themselves heard may be assumed to be where the weight of opinion lies. Or it could be that the superior resources or economic influence of a group may add to the perception that their side is the one that enjoys most support. Not only are organised interests able to work in favour of a proposal but they are at least as likely, if not more likely, to block a proposal.<sup>75</sup> By way of example, Kingdon describes the ability of medical care providers to block health insurance in the United States as “legendary.”<sup>76</sup>

### ***Government***

Turnover of administrative or legislative personnel can have a significant impact on the political stream.<sup>77</sup> When an election creates a change of people and parties in power, the change can be

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<sup>73</sup> Ibid., 147.

<sup>74</sup> Ibid., 150.

<sup>75</sup> Blankenau, “The Fate of National Health Insurance in Canada and the United States,” 39.

<sup>76</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 49.

<sup>77</sup> Zahariadis, “The Multiple Streams Framework: Structure, Limitations, Prospects,” 73.



“dramatic.”<sup>78</sup> While a shift in ideology and focus of a new government creates opportunities for new proposals, it also has the effect of burying other proposals that may have been considered by different politicians.<sup>79</sup> Some areas of policy are much more susceptible to ideological constraints than others; in his example Kingdon describes the way ideology shaped a significant number of the ideas in healthcare but very few in transportation.<sup>80</sup> Politicians also have a limited amount of political resources and voter tolerance, and therefore must prioritise issues.<sup>81</sup>

Jurisdiction is also important, and the notion that decision-makers act in accordance with the interests of the agencies or departments they represent. It is certainly noteworthy when bureaucrats do not “defend their turf”.<sup>82</sup> Competition between bureaucrats can have a significant impact on proposals in entirely different ways. While infighting can lead to a complete standstill and result in the progress of a proposal being stymied, competition can also result in a proposal’s progress being rushed as bureaucrats vie for the credit of bringing about the idea in the first place, if it is perceived as being popular.<sup>83</sup>

## **Policy Entrepreneurs**

Policy entrepreneurs are a critical component of policy streams theory. Kingdon describes policy entrepreneurs as “people who are willing to invest their resources in pushing their pet proposals or problems.”<sup>84</sup> But they are more than just advocates, they are “power brokers and manipulators”<sup>85</sup> who are responsible for drawing attention to problems and attaching values. They “decide which

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<sup>78</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 153.

<sup>79</sup> *Ibid.*, 154.

<sup>80</sup> *Ibid.*, 134.

<sup>81</sup> *Ibid.*, 184.

<sup>82</sup> *Ibid.*, 156.

<sup>83</sup> *Ibid.*, 157.

<sup>84</sup> *Ibid.*, 20.

<sup>85</sup> Zahariadis, “The Multiple Streams Framework: Structure, Limitations, Prospects,” 74.

problems to dramatize, choose which solutions to push, and formulate political strategies to bring their issues onto the agenda.”<sup>86</sup> They are also responsible for coupling specific policies to problems, and then coupling those with the politics stream.<sup>87</sup> Policy entrepreneurs also “soften up” people in policy communities and the general public to foster a favourable reception for their ideas.<sup>88</sup>

Constructivists use persuasion, and rational choice requires rationalism, however Zahariadis asserts that multiple streams is differentiated from these views by political manipulation; policy makers are open to being manipulated, while policy entrepreneurs manipulate to achieve their goals.<sup>89</sup>

There are a number of reasons why people become policy entrepreneurs: the motivation may be simply be that they have identified a problem and have a desire to see it solved; they may see an opportunity to further their own personal interests such as career advancement; they may wish to promote their own values in policy.<sup>90</sup> Policy entrepreneurs need to have a “claim to a hearing” that ensures they have the expertise or remit to speak on behalf of others, and the resources to do so.<sup>91</sup> Entrepreneurs with greater resources and great access to policy makers due to for example shared ideology, are more likely to succeed in pushing through these proposals.<sup>92</sup> Kingdon also notes that although the policy entrepreneur can be extremely perceptive, they may simply be persistent enough to have kept pushing their proposal until they finally found an open window.<sup>93</sup>

## Policy Windows

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<sup>86</sup> Mucciaroni, “The Garbage Can Model and the Study of Policy Making: A Critique,” 461.

<sup>87</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 20.

<sup>88</sup> *Ibid.*, 128.

<sup>89</sup> Zahariadis, “The Multiple Streams Framework: Structure, Limitations, Prospects,” 70.

<sup>90</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 123.

<sup>91</sup> Guldbrandsson and Fossum, “An Exploration of the Theoretical Concepts Policy Windows and Policy Entrepreneurs at the Swedish Public Health Arena,” 435.

<sup>92</sup> Zahariadis, “The Multiple Streams Framework: Structure, Limitations, Prospects,” 74.

<sup>93</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 183.

Policy windows are “critical points in time” when the three streams converge.<sup>94</sup> According to Kingdon, policy windows account for significant policy changes even though they are rare and short-lived. The political streams and the problem streams are the streams that are most likely to influence the agenda. “Basically a window opens because of change in the political stream...; or it opens because a new problem captures the attention of governmental officials and those close to them.”<sup>95</sup> The most easily anticipated window is an election that sees a newly elected government seeking to make its presence felt. Problems that become more prominent and difficult to ignore create opportunities and sometimes it is a single, major event that creates a window, such as the example Kingdon uses of a plane crash opening a window for aviation safety campaigners.<sup>96</sup> At face value, it would appear that the establishment of a United States Department of Homeland Security in the wake of the 9/11 terrorist attacks is a classic example of a crisis causing a window to open. Windows close quickly for a variety of reasons, including a change of personnel, the focus moving away from a major event, or that people are unable to get action during the time the window is open.<sup>97</sup> One possible reason for inaction could be overloading if several options are proposed when a window opens.<sup>98</sup> While entrepreneurs may promote a particular proposal and seek to manipulate, it is the policy makers that make the determination, depending on the political environment and the type of window that opens.<sup>99</sup>

### **Coupling - Joining the Streams**

The crux of Kingdon’s theory is that while each of the streams develops independently, policies do not reach the agenda unless those streams are joined. Policy ideas are not enough on their own and

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<sup>94</sup> Zahariadis, “The Multiple Streams Framework: Structure, Limitations, Prospects,” 65.

<sup>95</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 168.

<sup>96</sup> *Ibid.*, 169.

<sup>97</sup> *Ibid.*

<sup>98</sup> *Ibid.*, 176.

<sup>99</sup> Zahariadis, “The Multiple Streams Framework: Structure, Limitations, Prospects,” 70.

advocates of particular proposals look for problems to attach their particular solutions to. Kingdon refers to this convergence as “coupling”.<sup>100</sup> Policy entrepreneurs are the key factor in coupling. Policy entrepreneurs “hook solutions to problems, proposals to political momentum, and political events to policy problems.”<sup>101</sup> This element of the process is critical, as without the entrepreneurs making those links, the coupling of the streams may never happen and proposals may lie dormant. Travis and Zahariadis make what they refer to as a “minor change” to Kingdon’s model to show that the process of coupling extends to the “chances of a policy being adopted” rather than only making it on to the agenda.<sup>102</sup>

The opening of a policy window is an important factor in getting a policy proposal onto the agenda. Kingdon notes that many potential policies can be waiting with all three streams converged, with no window to push the policy through.<sup>103</sup> Which policy is chosen to be put forward while the policy window is open is dependent on whether it was the political stream or the problem stream that was responsible for opening the window. Kingdon labels these as problem windows and political windows, but notes that they are related.<sup>104</sup> Even though a proposal is an acceptable solution to a problem and a problem window has opened, the proposal must still be suited to the political stream.<sup>105</sup> Zahariadis explains that when a window opens in the problem stream, solutions are developed to address the problem, but when the window opens in the political stream, attention focusses on the solutions first before the problem is defined.<sup>106</sup>

### **Response to the Multiple Streams Theory**

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<sup>100</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 173.

<sup>101</sup> *Ibid.*, 182.

<sup>102</sup> Travis and Zahariadis, “A Multiple Streams Model of U.S. Foreign Aid Policy,” 495.

<sup>103</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 184.

<sup>104</sup> *Ibid.*, 174–175.

<sup>105</sup> *Ibid.*, 175.

<sup>106</sup> Zahariadis, “The Multiple Streams Framework: Structure, Limitations, Prospects,” 75.

While Sabatier describes the multiple streams framework as “not always as clear and internally consistent as one might like,” he believes it is able to be widely applied to a variety of political contexts.<sup>107</sup> Zohlnhofer, Herweg and Rub argue that as time has passed, the multiple streams’ assumption that policymaking is ambiguous has become even more relevant.<sup>108</sup> They note that scholarly interest in the multiple streams framework has increased considerably since 2000, through both a systematic application of the framework in research and at conference symposium level.<sup>109</sup> Thirty years since its first appearance, the theory has been used to add insight into policy formation in a variety of areas including health, education, illicit drug policy, foreign policy, and economic policy.<sup>110</sup>

Critics argue that the application of multiple streams is limited, because it was designed to address only the agenda-setting phase of policy development, and has limited use as a tool for explaining policy-making.<sup>111</sup> However since the original research, it has been further developed and successfully used to add understanding of the entire policymaking process.<sup>112</sup> Schwartz and Johnson use policy streams theory to explain why a policy solution *hasn’t* reached the governmental agenda to address the trade of contraband tobacco in Canada.<sup>113</sup> Their findings show that while there is a problem, there is a lack of convergence in the policy and political streams to allow a policy to reach the agenda.

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<sup>107</sup> Sabatier, “The Need for Better Theories,” 9.

<sup>108</sup> Zohlnhofer, Herweg, and Rub, “Theoretically Refining the Multiple Streams Framework,” 412.

<sup>109</sup> Ibid., 413.

<sup>110</sup> Lancaster, Ritter, and Colebatch, “Problems, Policy and Politics”; Young, Song, and Shepley, “Understanding Agenda Setting in State Educational Policy”; Guldbrandsson and Fossum, “An Exploration of the Theoretical Concepts Policy Windows and Policy Entrepreneurs at the Swedish Public Health Arena”; Aberbach and Christensen, “Radical Reform in New Zealand”; Travis and Zahariadis, “A Multiple Streams Model of U.S. Foreign Aid Policy.”

<sup>111</sup> Howlett, McConnell, and Perl, “Reconciling Streams and Stages: Avoiding Mixed Metaphors in the Characterization of Policy Processes.”

<sup>112</sup> Zahariadis, “The Multiple Streams Framework: Structure, Limitations, Prospects,” 80.

<sup>113</sup> Schwartz and Johnson, “Problems, Policies and Politics: A Comparative Case Study of Contraband Tobacco from the 1990s to the Present in the Canadian Context.”

Mucciaroni argues that because the streams develop independently, there is still room for “chance, human creativity, and choice to influence outcomes.”<sup>114</sup> The coming together of the three streams happens largely incidentally and what reaches the agenda is “in good measure serendipitous.”<sup>115</sup> He questions the reality of independent streams, and whether considering the streams as interdependent would be more useful, removing some of the element of chance.<sup>116</sup> It has also been suggested that Kingdon ignores structural and institutional constraints by focussing on behaviour and individuals, and these considerations would need to be developed for the theory to become more generalizable across political systems.<sup>117</sup> Mucciaroni claims that when all streams are present yet the problem still did not reach the agenda, structural considerations would be in play.<sup>118</sup> The second edition of *Agendas, Alternatives and Public Policies* provided Kingdon an opportunity to address some of these criticisms, and he argues that while the theory allows for “residual randomness,” structural constraints are found within each of the streams.<sup>119</sup> The model is “structured in the same sense that a river is fluid, but its banks usually restrict its movement. The process cannot flow just anywhere.”<sup>120</sup>

Multiple streams has also been applied to and analysed in parliamentary systems of government.<sup>121</sup> Blankenau develops and adds a new hypothesis by looking specifically at the institutional differences between the presidential system in the United States with its separation of power between the legislative and executive branches of government, and Canada with its parliamentary system that is more akin to a “fusion of these powers.”<sup>122</sup> This separation in the United States system creates veto

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<sup>114</sup> Mucciaroni, “The Garbage Can Model and the Study of Policy Making: A Critique,” 461.

<sup>115</sup> *Ibid.*, 473.

<sup>116</sup> Mucciaroni, “The Garbage Can Model and the Study of Policy Making: A Critique.”

<sup>117</sup> Schlager, “A Comparison of Frameworks, Theories, and Models of Policy Processes”; Blankenau, “The Fate of National Health Insurance in Canada and the United States”; Mucciaroni, “The Garbage Can Model and the Study of Policy Making: A Critique.”

<sup>118</sup> Mucciaroni, “The Garbage Can Model and the Study of Policy Making: A Critique,” 465.

<sup>119</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 222.

<sup>120</sup> *Ibid.*, 223.

<sup>121</sup> Zohlnhofer, Herweg, and Rub, “Theoretically Refining the Multiple Streams Framework,” 414.

<sup>122</sup> Blankenau, “The Fate of National Health Insurance in Canada and the United States,” 39.

points that do not exist in Canada, and Canada's system is more likely to foster substantial policy changes in a short period of time. Blankenau's additional hypothesis is that a policy window needs to be open for a shorter period of time in a parliamentary system than in a presidential one.

Zahariadis has used multiple streams extensively, by applying it to a range of political contexts including comparative politics, as well as further expansion and refinement of the theory.<sup>123</sup> He has applied multiple streams to compare privatisation in Britain and France, and with Allen to compare privatisation in Britain and Germany. Zahariadis and Allen examine the incidence of 'softening up' in different countries and argue that the long period of softening up required in the United States context is not always the case, and that the "trajectory" of a policy idea is dependent upon the "size, mode, capacity and access" of the policy community or as they prefer, network.<sup>124</sup> Travis and Zahariadis' analysis of United States' foreign aid policy was the first to use quantitative analysis of their hypothesis based on multiple streams, which concluded that empirically tested results were consistent with their theoretical expectations."<sup>125</sup>

Boscarino uses an empirical analysis to further explore the concept of "problem surfing," an analogy first suggested by an analyst in the original interviews in Kingdon's book, where advocates lie in wait with their proposal for a problem 'wave' to come along that they can attach it to.<sup>126</sup> Boscarino finds that advocates who have a solution they want to see implemented strategically surf from problem to problem, as new problems are seen as additional opportunities to get a solution over the line. She also argues that policy advocates' willingness to problem surf is affected by institutional and structural factors.

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<sup>123</sup> Sabatier, "The Need for Better Theories," 9.

<sup>124</sup> Zahariadis and Allen, "Ideas, Networks, and Policy Streams: Privatization in Britain and Germany," 75.

<sup>125</sup> Travis and Zahariadis, "A Multiple Streams Model of U.S. Foreign Aid Policy," 495.

<sup>126</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 165; Boscarino, "Surfing for Problems: Advocacy Group Strategy in U.S. Forestry Policy."

In New Zealand, Aberbach and Christensen have applied multiple streams to their analysis of the radical reforms undertaken by the fourth Labour government.<sup>127</sup> Their research sets out the 1984 currency crisis as an event that creates a textbook window of opportunity, with the Treasury's favoured policies coupling with both a problem and a political environment, including a political actor, ready to make change. Aberbach and Christensen argue that Kingdon's theory helps provide the most credible explanation for the reforms, with particular importance placed on the window created by the crisis in the economy.

### **Applying Theory to Practice**

Colebatch believes there is a level of detachment between theorists and practitioners of policy, with those who work in policy arguing that their practical knowledge of policy is "not theoretical."<sup>128</sup> This discord is misplaced, he argues, because policy practice intrinsically involves "attributing significance to some things rather than others, recognising some participants and practices as being important and valid ... in preference to others," ideas and assumptions that are in effect, theoretical.<sup>129</sup> Both politics and policy include a vast array of competing and multifaceted factors, and one of the challenges that has contributed to the discord is the need to account for the nuanced interactions between actors, institutional constraints and complex phenomenon that occur in the policy making sphere, while also providing some practical, accessible guidance for practitioners. Adding to the difficulty is the reality that some policy processes are decades long.<sup>130</sup> In Australia, Bridgman and Davis have attempted to close this gap with their work on 'policy cycles' that is aimed at breaking down some of the theoretical components of policy work into practicable steps, making it accessible to those working in the field including those whose formal training did not include policy or political

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<sup>127</sup> Aberbach and Christensen, "Radical Reform in New Zealand."

<sup>128</sup> Colebatch, "Policy Analysis, Policy Practice and Political Science," 14.

<sup>129</sup> Ibid.

<sup>130</sup> Sabatier, "The Need for Better Theories," 3.



science.<sup>131</sup> They acknowledge the limitations of such work, noting that their policy cycle is a simple model of a complex process and that like all models, can never be applied comprehensively as policy making will always be shaped by the constraints of various institutions.<sup>132</sup> The aim of policy cycles is not to explain or predict but to “aid understanding.”<sup>133</sup> Colebatch is critical of the idea that simplifying theory is of use, but agrees that there is no “simple division between ‘theory’ and ‘practice.’”<sup>134</sup> Sabatier however argues that it is necessary for analysts to try to simplify the policy process because “one simply cannot look for, and see, everything.”<sup>135</sup>

Ostrom and Schlager discuss the importance and difficulties of differentiating between frameworks models and theories.<sup>136</sup> Schlager cites Ostrom’s argument that conflating models and theories can lead to overstated claims about an ideas generalisability.<sup>137</sup> While theories and models can explain or predict, the role of frameworks is to provide a “foundation for enquiry” by directing the analyst to important features and specifying variables.<sup>138</sup>

In applied policy research, the research needs to be focussed on providing some “‘answers’ in the form of greater illumination or understanding of the issues being addressed.”<sup>139</sup> A theoretical framework provides some guidance as to which aspects of the process require the attention of the researcher and articulates some of the assumptions made. It is important to be cognisant of the fact that weaknesses exist, however for this case study, a multiple streams framework is well suited to provide insight into the key question of how microfinance has reached the agenda in New Zealand.

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<sup>131</sup> Bridgman and Davis, “What Use is a Policy Cycle? Plenty, if the Aim is Clear,” 99.

<sup>132</sup> Ibid.

<sup>133</sup> Ibid., 100.

<sup>134</sup> Colebatch, “Policy Analysis, Policy Practice and Political Science,” 14.

<sup>135</sup> Sabatier, “The Need for Better Theories,” 4.

<sup>136</sup> Schlager, “A Comparison of Frameworks, Theories, and Models of Policy Processes”; Ostrom, “Institutional Rational Choice.”

<sup>137</sup> Schlager, “A Comparison of Frameworks, Theories, and Models of Policy Processes,” 294.

<sup>138</sup> Ibid., 293.

<sup>139</sup> Ritchie and Spencer, “Qualitative Data Analysis for Applied Policy Research,” 307.

This insight could support some informed speculation on the future New Zealand's microfinance programmes, and allows us to consider similar evaluations of related proposals and ideas such as peer to peer lending.

## **Conclusion**

This chapter has provided context for this research by outlining some theories of the policy process, including the garbage can model that has formed the basis for multiple streams theory. The three streams that comprise multiple streams theory have been described in detail, as have the other important elements of the theory: policy entrepreneurs, coupling and policy windows. There are also examples of how the theory has been used and expanded, as well as some of the theory's critiques. Lastly, the importance of applied policy research and how it may be applied to this microfinance initiative was described.

While this chapter provided background on the theoretical aspects of policy analysis, the following chapter provides context for the policy, including a broad overview of the relevant aspects of the financial sector and a review of the literature on microfinance.

## Chapter Three - The Financial Sector and Microfinance

Microfinance is a policy response that is positioned within the financial services sector. For this reason, this chapter begins with some background on the role of the financial sector and credit in society, including the impact of the global financial crisis. This is followed by a definition of financial exclusion and inclusion.

The rest of the chapter reviews the literature on microfinance and it should be noted that the vast majority of the microfinance literature focusses on microenterprise loans in developing countries. Due to the lack of research on microfinance in the developed world, the larger themes in both developed and developing countries, have been included here. The chapter includes a description of the origins of modern microfinance at the Grameen Bank followed by an overview of the most dominant theme in the literature, the financial sustainability of microfinance programmes. The role of different stakeholders is discussed, as well as issues relating to gender and financial abuse. The chapter concludes with a brief overview of microfinance in New Zealand.

### The Financial Sector

The role of the financial sector in society is unique; banks are inextricably linked to monetary policies and welfare entitlements. The World Bank believes that access to financial services is critical for reducing poverty and increasing prosperity.<sup>140</sup> Yunus goes so far as to argue that access to credit is a human right; if people are able to source the credit that allows them to generate income, they are able to secure other human rights such as food and shelter.<sup>141</sup>

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<sup>140</sup> World Bank, *Inclusion Matters: The Foundation for Shared Prosperity*.

<sup>141</sup> Ramesh, "Credit Is a Basic Human Right"; "Enterprising Ideas - Q&A with Muhammad Yunus."

There are numerous different lending services provided by a range of providers in New Zealand. The terms first, second and third tier lending are used to describe the majority of these providers. As defined by the Ministry of Consumer Affairs, first tier lenders are registered banks, second tier lenders include building societies and credit unions, and third tier lenders include finance companies, pawn brokers and mobile lending trucks.<sup>142</sup>

The financial sector was hit hard by the 2007/2008 global financial crisis, which economists argued was the worst financial crisis since the Great Depression.<sup>143</sup> In the United States, home mortgages that many argued should never have been disbursed – subprime mortgages – were defaulted on in large numbers.<sup>144</sup> In New Zealand, a number of high profile finance companies went into liquidation including Bridgecorp Holdings, Hanover Finance and South Canterbury Finance.

The period since this crisis has seen the arrival of a variety of alternative platforms for accessing credit both internationally and in New Zealand. Commentators believe a lack of faith in banks and traditional financial institutions brought on by the crisis has been the catalyst for alternative providers.<sup>145</sup> ‘Crowdfunding’ platforms such as Kickstarter, Snowball Effect and PledgeMe provide opportunities for start-up businesses to generate equity directly from potential investors. P2P or peer-to-peer lending services such as Harmoney use an online platform to match investors with people seeking a loan, shunning the traditional model of banking. Along with the proliferation of platforms that seek to challenge the status quo, there has been increased interest in the role of credit and banking services in society including the desire to measure financial inclusion.

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<sup>142</sup> Social Research Agency, Colmar Brunton, “Using a Third Tier Lender: Experiences of New Zealand Borrowers,” 5.

<sup>143</sup> Business Wire, “Three Top Economists Agree 2009 Worst Financial Crisis Since Great Depression; Risks Increase If Right Steps Are Not Taken.”

<sup>144</sup> McLean and Nocera, *All the Devils Are Here. The Hidden History of the Financial Crisis*.

<sup>145</sup> Grehan, “Reinventing Debt with Crowdfunding.” Consumer, “Peer-to-Peer Lending.”

## Financial Exclusion and Inclusion

The idea that credit and financial services are critical for prosperity has provided the impetus to measure whether or not people have access to those services, and the concept of being excluded or included financially. Measuring financial inclusion and exclusion is relatively new; the World Bank's first formal data set was gathered in 2011. The Global Findex research involved surveying more than 150,000 people in 148 countries to establish the differences in access to financial services and credit in different countries. As would be expected, there were vast differences between developing and developed economies in respect of the ability of citizens to access these products and services. As is the case in Australia, very few New Zealand citizens do not have a bank account. According to the 2011 data, New Zealand and Australia are third and fourth respectively in the ranking of 148 countries for the number of citizens that have bank accounts, equating to more than 99 percent of citizens owning transaction accounts.<sup>146</sup> This is a reflection of the fact that both countries provide some form of social security that can only be accessed via payments into personal bank accounts.

Research shows that the concepts of social and financial inclusion are closely linked with the dominance of the market model in our society.<sup>147</sup> There has been a significant shift since WWII in societal norms around savings and credit, with a considerable change in perception towards the acceptability, even necessity, of debt.<sup>148</sup> People's ability to participate is dependent on their ability to access credit, banking, savings and insurance.<sup>149</sup> Scholars note that people are not necessarily financially included if the products they have access to are not appropriate.<sup>150</sup> Whilst low income earners often have access to bank accounts with low fee structures, they accumulate penalties for

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<sup>146</sup> Demircug-Kunt and Klapper, "Measuring Financial Inclusion: The Global Findex Database."

<sup>147</sup> Landvogt, "Money, Dignity and Inclusion: The role of financial capability," 18.

<sup>148</sup> Burkett, "Microfinance in Australia," 14; Landvogt, "Money, Dignity and Inclusion: The role of financial capability," 18.

<sup>149</sup> Landvogt, "Money, Dignity and Inclusion: The role of financial capability," 18.

<sup>150</sup> Corrie, "Microfinance and the Household Economy. Financial Inclusion, Social and Economic Participation and Material Wellbeing," 13.

having insufficient funds to process payments, which consequently contributes to financial exclusion.<sup>151</sup> Research also finds that a number of low income earners are wary of credit cards and department store loans because of the potential for penalties and high interest when they are not paid off in full. A number of respondents in case studies are self-excluded from financial services for this reason.<sup>152</sup> Because low income earners are less able to absorb financial shocks and changes in circumstances relative to higher income earners,<sup>153</sup> their acceptance of a number of mainstream financial services comes with a much higher element of personal risk.

Financial exclusion is a structural restriction on agency and lack of access or choice often drives consumers towards 'payday' or 'fringe' lenders.<sup>154</sup> In addition, financial providers are offering services that are increasingly complex and more aggressively advertised.<sup>155</sup> A large amount of research discusses the role of improving financial literacy and education to enable clients to understand financial services that are available and the implications for engaging those services.<sup>156</sup> Good Shepherd Microfinance uses the term 'financial capability' to indicate that financial literacy is only one aspect of addressing some of the issues low-income people face in the financial sector.<sup>157</sup> Financial capability includes education, regulation of the industry, access to consumer rights as well as access to appropriate financial services and a person's ability to exercise agency.<sup>158</sup> The need to address both financial literacy and financial exclusion is illustrated by the findings of a 2007 report on Pacific consumers prepared for the Ministry of Consumer Affairs which stated that even those with "reasonably high levels of financial literacy and awareness of the high costs involved in the

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<sup>151</sup> Ayres-Wearne and Palafox, "NILS: Small Loans, Big Changes," 1.

<sup>152</sup> Ayres-Wearne and Palafox, "NILS: Small Loans, Big Changes."

<sup>153</sup> Landvogt, "Critical Financial Capability," 1; Corrie and Beyers, "Financial Capability and the Role of Centrepay," 2.

<sup>154</sup> Venkataramany and Bhasin, "Path to Financial Inclusion: The Success of Self-Help Groups-Bank Linkage Programme in India," 12; Banks et al., "Caught Short. Exploring the Role of Small, Short-Term Loans in the Lives of Australians," 4.

<sup>155</sup> Landvogt, "Money, Dignity and Inclusion: The Role of Financial Capability," 19.

<sup>156</sup> Ibid.

<sup>157</sup> Landvogt, "Money, Dignity and Inclusion: The Role of Financial Capability."

<sup>158</sup> Corrie and Beyers, "Financial Capability and the Role of Centrepay," 1.

fringe credit market felt they had limited choice about the conditions under which they accepted the credit they sought.”<sup>159</sup>

Budgeting advice is an integral part of the service delivery model for some microfinance programmes.<sup>160</sup> Auckland-based Nga Tangata Microfinance Trust offers NILS loans through existing budget advisory services; budget advisors act as frontline staff for accessing the loans and assist the clients to improve their financial literacy.<sup>161</sup> Research shows that for some programmes the motivation for including budget advice is to address the high levels of debt among low income families in the developed world.<sup>162</sup> However, other research concludes that low-income people manage their money very well.<sup>163</sup> The idea that people struggling on low incomes have somehow mismanaged their money is a perception rather than a reality,<sup>164</sup> and these perceptions exacerbate the experience of financial exclusion.<sup>165</sup>

Pedrini et al believe that the global financial crisis has had an adverse effect on financial inclusion in the developed world.<sup>166</sup> While poverty rates are not comparable to the developing world, a number of people do not have appropriate access to the financial services needed to remain out of poverty. They argue that the increase in microfinance in developed countries is a result of the concern about declining rates of financial inclusion.

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<sup>159</sup> Anae et al., “Pacific Consumers’ Behaviour and Experience in the Credit Market with Particular Reference to the ‘Fringe Lending’ Market,” 105.

<sup>160</sup> Buckland and Hay, “Microfinance for Wealthy Countries,” 66; Dale, Feng, and Vaithianathan, “Microfinance in Developed Economies: A Case Study of the NILS Programme in Australia and New Zealand,” 308.

<sup>161</sup> Dale, Feng, and Vaithianathan, “Microfinance in Developed Economies: A Case Study of the NILS Programme in Australia and New Zealand,” 308.

<sup>162</sup> Buckland and Hay, “Microfinance for Wealthy Countries,” 66.

<sup>163</sup> Corrie, “Microfinance and the Household Economy. Financial Inclusion, Social and Economic Participation and Material Wellbeing,” 108; Landvogt, “Money, Dignity and Inclusion: The Role of Financial Capability,” 18.

<sup>164</sup> Landvogt, “Money, Dignity and Inclusion: The Role of Financial Capability,” 17; Buckland and Hay, “Microfinance for Wealthy Countries,” 66; Mouy, “Just Credit, Good Practice,” 22.

<sup>165</sup> Landvogt, “Money, Dignity and Inclusion: The Role of Financial Capability,” 17.

<sup>166</sup> Pedrini et al., “Rethinking Microfinance for Developed Countries,” 283.

## Modern Microfinance

There are many definitions of microfinance, although in all cases it refers to financial services for people on low incomes who would not otherwise be able to access those services.<sup>167</sup> The modern microfinance phenomenon has its origins in the work that led to the establishment of the Grameen Bank. In the 1970s in Bangladesh, economist Professor Muhammad Yunus began a field analysis of women working in villages trying to make a living.<sup>168</sup> He observed that profits on the goods being produced were severely eroded by the high cost of the finance needed for the materials. With access to credit that was more affordable, the women in village would be able to move out of subsistence living towards a more financially comfortable life. Yunus began lending small amounts of money as 'micro-loans' to groups of people working in the village, and in 1983 formed Grameen Bank, meaning 'Village Bank.'<sup>169</sup> Grameen charges relatively small amounts of interest (at the time of writing, between 5% and 20% per annum) and 97% of loaned funds are repaid; the Bank claims that this is a higher rate of repayment than "any other banking system."<sup>170</sup>

## Sustainability

Microfinance programmes require loan capital. In New Zealand and Australia this has been provided by banks, however around the world this capital has been provided by international aid agencies and philanthropic foundations as well as banks. Sometimes this capital is provided as grants and other times as "soft loans" which are subsidised, or include favourable conditions for microfinance

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<sup>167</sup> Karlan and Goldberg, "Microfinance Evaluation Strategies," 22; Labie and Mersland, "Corporate Governance Challenges in Microfinance," 284.

<sup>168</sup> Grameen Bank "Grameen Bank: Founder." <http://www.grameen-info.org/grameen-founder-muhammad-yunus/> (accessed March 21, 2015)

<sup>169</sup> Ibid.

<sup>170</sup> Ibid.; "Interest Rate." <http://www.grameen-info.org/grameen-bank-interest-rate/> (accessed March 21, 2015)



institutions.<sup>171</sup> Costs are made up of administration and write-offs, and are paid for either by additional donor funds, or by charging interest. The latter effectively allows the programme to break even without additional external support, and continue to make loans and assist people out of poverty. This idea that a development policy can effectively pay for itself is the reason for its 'silver bullet' status; the combined potential of poverty alleviation and financial sustainability has been the impetus for the global growth of microfinance.<sup>172</sup>

However the concept of financial sustainability is the most contentious topics in the microfinance literature. Murdoch refers to it as the "microfinance schism."<sup>173</sup> Sustainability theory can be divided into two perspectives: that through charges and fees microfinance can be financially self-sustaining; and that, because low income people often cannot afford interest, sustainability should rely, at least in part, on charitable donations towards administration costs from the public or private sector.<sup>174</sup> Voola refers to the former as the 'financial systems approach' and the latter as the 'poverty lending approach'.<sup>175</sup> Many scholars agree that the dominant view is the financial systems approach: that microfinance institutions should be able to cover their costs with fees and charges.<sup>176</sup>

Prior to microfinance, the idea that poverty alleviation can be achieved through a self-financing model has not existed,<sup>177</sup> and the desire for the removal of subsidies and for programmes to be financially self-sustaining is a view that aligns with proponents of a market-led economy.<sup>178</sup> Burkett and Sheehan argue that this view is too narrow because it places too much emphasis on the

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<sup>171</sup> Fehr and Hishigsuren, "Raising Capital for Microfinance: Sources of Funding and Opportunities for Equity Financing."

<sup>172</sup> Brau and Woller, "Microfinance: A Comprehensive Review of the Existing Literature," 2.

<sup>173</sup> Murdoch, "The Micro-finance Schism."

<sup>174</sup> Burkett and Sheehan, "From the Margins to the Mainstream," 9.

<sup>175</sup> Voola, "The Sustainability of What? The Challenge for Microfinance in Australia."

<sup>176</sup> Gutiérrez-Nieto, Serrano-Cinca, and Molinero, "Social Efficiency in Microfinance Institutions," 104; Brau and Woller, "Microfinance: A Comprehensive Review of the Existing Literature," 4; Voola, "The Sustainability of What? The Challenge for Microfinance in Australia."

<sup>177</sup> Murdoch, "The Micro-finance Schism," 619.

<sup>178</sup> Johnson, "Microfinance North and South: contrasting current debates," 801.

commercial potential of microfinance and “privileges certain kinds of products” such as those that bear high interest.<sup>179</sup> A large amount of the criticism that has been levelled at microfinance is related to the burden high interest imposes on clients.<sup>180</sup> The idea of financial sustainability not only incentivises high interest rates, but punitive collection procedures. Terberger notes that a number of the developing countries where microfinance is present lack the necessary consumer regulations to protect borrowers.<sup>181</sup>

While some scholars note that there is the potential for an integration of services, by charging for some products and effectively subsidising others,<sup>182</sup> others believe that this model will increase ‘mission drift’; focussing on services that may improve financial sustainability but straying from the original purpose of microfinance.<sup>183</sup> This view holds that mission drift does not serve microfinance institutions well and that microfinance has gained international attention because of its primary mission: to offer financial products and services to a sector of society that would be unable to access it elsewhere. This attention has manifested into donations from “social investors” who are not looking for financial returns on their investment. Such investments allow a microfinance institution to retain its focus on traditional microfinance activities and should lead to its continued success.<sup>184</sup>

In spite of the high rates of interest that are often present,<sup>185</sup> along with an awareness of the “best practices” that are likely to enhance financial self-sustainability, a tiny percentage of microfinance programmes are, or indeed are even expected to be, financially self-sustaining.<sup>186</sup> This adds weight

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<sup>179</sup> Burkett and Sheehan, “From the Margins to the Mainstream,” 8.

<sup>180</sup> Hudon and Sandberg, “The Ethical Crisis in Microfinance: Issues, Findings, and Implications,” 562.

<sup>181</sup> Terberger, “The Microfinance Approach,” 186.

<sup>182</sup> Johnson, “Microfinance North and South: contrasting current debates,” 801; Murdoch, “The Micro-finance Schism,” 619; Karlan and Goldberg, “Microfinance Evaluation Strategies,” 23.

<sup>183</sup> Brau and Woller, “Microfinance: A Comprehensive Review of the Existing Literature,” 4; Hudon, “Ethics in Microfinance,” 127.

<sup>184</sup> MacDougall, “How to Assess the Real Strength of a Microfinance Institution?”

<sup>185</sup> Hudon, “Ethics in Microfinance,” 129.

<sup>186</sup> Murdoch, “The Micro-finance Schism,” 618; McGuire and Conroy, “The Microfinance Phenomenon,” 105.

to the arguments of scholars who insist that a sustainability framework must combine the potential for financial self-sustainability with the social impact that will inspire donors.<sup>187</sup> However there are inherent difficulties in measuring social impact, which has almost certainly contributed to a lack of impact studies. Hudon and Sandberg note that microfinance enjoyed a long period of support based on little but anecdotal evidence.<sup>188</sup> They conclude that while there does appear to be some positive impact on alleviating poverty in the developing world, “there is still insufficient evidence to justify the whole phenomenon of microfinance.”<sup>189</sup> While Good Shepherd Microfinance has commissioned a number of evaluations of its programmes, impact studies on microfinance in the developed world remain scarce.<sup>190</sup>

Microfinance in the developed world is more likely to be based on a not-for-profit model and therefore at less risk of some of the criticisms levelled at microfinance with high interest rates. The interest-free NILS programme is inherently not self-funding and is specifically a “non-market microfinance response.”<sup>191</sup> It does however require high repayment rates to maintain its capital base and remain viable. The Step UP programme provides small, low-interest loans. At the time of writing, StepUP’s New Zealand interest rate was fixed at 6.99 percent for the duration of the loan, approximately two percentage points higher than a home loan from a mainstream New Zealand bank. While interest is charged, it is not enough to ensure the loan programme is financially self-sustaining.

## **The Role of the Banks**

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<sup>187</sup> Burkett and Sheehan, “From the Margins to the Mainstream,” 13; Murdoch, “The Micro-finance Schism,” 627; MacDougall, “How to Assess the Real Strength of a Microfinance Institution?”

<sup>188</sup> Hudon and Sandberg, “The Ethical Crisis in Microfinance: Issues, Findings, and Implications,” 563.

<sup>189</sup> *Ibid.*, 565.

<sup>190</sup> Pedrini et al., “Rethinking Microfinance for Developed Countries,” 295.

<sup>191</sup> Burkett and Sheehan, “From the Margins to the Mainstream,” 21.

Armendáriz and Murdoch note that a cost/benefit analysis of microfinance programmes is crucial to ensure that subsidies are good value for a donor's dollar.<sup>192</sup> This raises questions about what is good value and consequently, who those donors should be; what is the role of the government and what should be the corporate responsibility of the banking sector.<sup>193</sup> Some scholars believe that the banking sector in developed economies has obligations under a social contract because of the role of banking in society.<sup>194</sup> In Australia, some groups believe the banks have even greater societal obligations since their reliance on government guarantees during the global financial crisis.<sup>195</sup> Others believe that banks' involvement in microfinance is an opportunity to recover reputational damage suffered as a result of the crisis.<sup>196</sup>

Microfinance providers in developed countries often face higher barriers to entry due to a more comprehensive regulatory environment than in the developing world.<sup>197</sup> The roles of the National Australia Bank in Australia and the Bank of New Zealand in New Zealand are significantly more involved than merely providing loan capital. The banks provide the financial platform that allows the flexibility to deliver a variety of services such as savings accounts; the provision of which is restricted solely to banks under most developed economies' regulations.<sup>198</sup> StepUP loans are interest-bearing, although the amount of interest is small and fixed, and the loans require more direct operational support from the banks. The community organisations are still the point of contact for the client.

## **The Role of the State**

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<sup>192</sup> Armendáriz and Morduch, *The Economics of Microfinance*, 320.

<sup>193</sup> Burkett and Sheehan, "From the Margins to the Mainstream," 21.

<sup>194</sup> Corrie, "Microfinance and the Household Economy. Financial Inclusion, Social and Economic Participation and Material Wellbeing," 8.

<sup>195</sup> Ibid.

<sup>196</sup> Pedrini et al., "Rethinking Microfinance for Developed Countries," 293.

<sup>197</sup> Ibid.

<sup>198</sup> Mouy, "Just Credit, Good Practice," 10; Buckland and Hay, "Microfinance for Wealthy Countries," 68.

Financial sustainability in microfinance has particular implications for public policy. Balkenhol suggests that if a microfinance programme creates positive outcomes for people on low incomes but is not financially sustainable, that government has a role in supporting it.<sup>199</sup> He also argues that if a government financially subsidises a microfinance institution that it should not have to compromise social goals and financial performance.<sup>200</sup> In Australia, Good Shepherd Microfinance's programmes rely on a significant number of volunteers and funding from the Australian Government, which has contributed AUD36.4 million between 2009 and 2014.<sup>201</sup>

### **The Role of Community Organisations**

While some microfinance products are provided through banks, others are provided through NGOs using their existing community networks and organisations. Good Shepherd Microfinance's research has found that the ability of community organisations to provide a more holistic approach when disbursing loans, and refer clients to other services relevant to the client's needs, is correlated with low arrears and write-offs.<sup>202</sup> The community approach has also allowed the services to utilise community organisations' volunteer networks to extend reach of services.<sup>203</sup> In the United Kingdom, the Full Circle Project used a community-organisation approach to apply its ample knowledge of the skills and experience of its microfinance clients to assist them into self-employment.<sup>204</sup> Gutiérrez-Nieto, Serrano-Cinca and Molinero conclude that NGOs are more 'socially efficient' than other types of microfinance providers, such as banks.<sup>205</sup>

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<sup>199</sup> Balkenhol, "Microfinance and Public Policy."

<sup>200</sup> Ibid.

<sup>201</sup> Plant and Warth, "Community Development Financial Institutions Pilot Evaluation Report," 30.

<sup>202</sup> Cowling et al., "Putting Good Practice at the Heart of NILS," 26.

<sup>203</sup> Mouy, "Just Credit, Good Practice," 27.

<sup>204</sup> Pearson, "Microcredit Meets Social Exclusion: Learning with Difficulty from International Experience," 816.

<sup>205</sup> Gutiérrez-Nieto, Serrano-Cinca, and Molinero, "Social Efficiency in Microfinance Institutions."

## Group or Individual Lending, and Payment Frequency

Microenterprise loans are usually associated with group-lending; microfinance institutions provide loans to establish and expand business ventures, and the liability is taken on by a group of lenders. Group-based lending uses social capital in lieu of collateral to enhance loan security and the approach has been credited with ensuring high repayment rates on low interest loans.<sup>206</sup> Group members know more about each other than the lender does, which counters the problem of “adverse selection.”<sup>207</sup> However the high repayment rate in the Australian NLS programmes, based on an individual lending model, challenges this assumption, and Karlan and Goldberg cite studies that found no difference between repayment rates in either system.<sup>208</sup> Dale, Feng and Vaithianathan note that Grameen Bank has changed its original model of lending to include individual loans in order to offer more flexibility.<sup>209</sup> They also observe that one of the main incentives for individual repayments is that individuals could be excluded from further loans, and that this is particularly true in areas where there is lack of competition.<sup>210</sup>

Karlan and Goldberg discuss the assumption that high repayment rates are a result of frequent payments by lenders.<sup>211</sup> They refer to Pande and Field’s study on the effect of payment frequency on defaults, which concluded that there was no difference between monthly or weekly repayments on

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<sup>206</sup> Brau and Woller, “Microfinance: A Comprehensive Review of the Existing Literature,” 11; Dale, Feng, and Vaithianathan, “Microfinance in Developed Economies: A Case Study of the NLS Programme in Australia and New Zealand.”

<sup>207</sup> Dale, Feng, and Vaithianathan, “Microfinance in Developed Economies: A Case Study of the NLS Programme in Australia and New Zealand,” 305.

<sup>208</sup> Karlan and Goldberg, “Microfinance Evaluation Strategies,” 27.

<sup>209</sup> Dale, Feng, and Vaithianathan, “Microfinance in Developed Economies: A Case Study of the NLS Programme in Australia and New Zealand,” 305.

<sup>210</sup> Ibid.

<sup>211</sup> Karlan and Goldberg, “Microfinance Evaluation Strategies,” 27.

default rates.<sup>212</sup> This has implications for both the costs and time commitment of administering a microfinance programme.<sup>213</sup>

### **Microfinance, Gender and Financial Abuse**

Globally, women are more financially excluded than men.<sup>214</sup> For this reason microfinance, a product that seeks to reach those who are unable to access mainstream credit, is provided predominantly to women. The world's most well-known provider of microfinance, Grameen Bank, distributes 97 percent of its loans to women, and Grameen America only loans to women.<sup>215</sup> In Australia, women comprise 68 percent of NILS loan borrowers.<sup>216</sup> The way women spend money is inherently linked to children and family life,<sup>217</sup> and because of this it has also been suggested that women are lower risk clients of credit.<sup>218</sup>

While there are some arguments that microfinance empowers women<sup>219</sup> others believe that loans taken on by women appear to have positive outcomes for the household but not for the women themselves.<sup>220</sup> A number of scholars raise concerns about women taking on debt when they are not also able to exercise agency in the financial affairs of the household. Goetz and Sen Gupta's research

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<sup>212</sup> Pande and Field, "Repayment Frequency and Default in Microfinance: Evidence from India."

<sup>213</sup> Karlan and Goldberg, "Microfinance Evaluation Strategies," 28. (Karlan and Goldberg also note the issue of reduced social capital from a reduced number of meetings in follow-up studies, however repayments are not made in person in Good Shepherd's programmes.)

<sup>214</sup> "Financial Inclusion Data/Global Findex: Gender." <http://data.worldbank.org/> (accessed November 4, 2015)

<sup>215</sup> Grameen America "The Grameen Model Alleviates Poverty." <http://www.grameenamerica.org/> (accessed April 27, 2014); Grameen Bank "About Us." <http://www.grameen-info.org/about-us/> (accessed April 27, 2014)

<sup>216</sup> Good Shepherd Microfinance, "A Life Changing Journey: 2014 Annual Report."

<sup>217</sup> Marsh, "Micro-Credit: Can It Empower Women in Developed Countries?," 4; Armendáriz and Morduch, *The Economics of Microfinance*, 212.

<sup>218</sup> Hermes and Lensink, "Microfinance," 876.

<sup>219</sup> Pedrini et al., "Rethinking Microfinance for Developed Countries."

<sup>220</sup> Voola, "Gendered Poverty and Education: Moving Beyond Access to Expanding Freedoms Through Microfinance Policy in India and Australia," 88.

concludes that a significant amount of the loans provided to women in Bangladesh are not controlled by those women, although they bear the liability.<sup>221</sup> Garikipati's study of microfinance loans in India finds that although loans can increase productivity, women are unable to use income subsequently generated towards loan repayments because they have no ownership over the family's assets.<sup>222</sup> Because they still bear liability they look elsewhere for income to service the loans; this often means they shift from working on the family farm to working in waged jobs elsewhere. In addition to the lower social standing of work that is not related to family owned assets, the desperate need to make repayments leaves women open to exploitative wages.<sup>223</sup>

Women's ability to exercise agency is a factor in the developed world also. Often, restricting access to money and credit is used as a form of control over another person, and since 2013, 'financial and economic abuse' has been included as a form of abuse in New Zealand's Domestic Violence Act 1995; this includes "denying or limiting access to financial resources, or preventing or restricting employment opportunities or access to education."<sup>224</sup> While it is acknowledged that men can also be on the receiving end of domestic violence, it remains a gendered issue, with up to 33 percent of women experiencing abuse during their lifetime.<sup>225</sup> Women who have left violent relationships have also found themselves burdened with "sexually-transmitted debt" made up of debts incurred by ex-partners in their name that has ruined their credit histories and consequently left them excluded from the mainstream lending market.<sup>226</sup> Lack of access to money or safe credit has been identified as a barrier to people wishing to leave a violent relationship and set themselves and their children up in

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<sup>221</sup> Goetz and Sen Gupta, "Who Takes the Credit? Gender, Power, and Control Over Loan Use in Rural Credit Programs in Bangladesh," 45.

<sup>222</sup> Garikipati, "The Impact of Lending on Household Vulnerability and Women's Empowerment: Evidence from India," 23.

<sup>223</sup> Ibid., 21.

<sup>224</sup> New Zealand Government. *Domestic Violence Amendment Act*. 2013

<sup>225</sup> Fanslow and Robinson, "Violence Against Women in New Zealand: Prevalence and Health Consequences," 5.

<sup>226</sup> Corrie, "Microfinance and the Household Economy. Financial Inclusion, Social and Economic Participation and Material Wellbeing," 96.



a safe home.<sup>227</sup> It also aligns with the origins of the loans; the Sisters of the Good Shepherd began giving no interest loans for women to buy appliances and set up new homes when they left violent relationships in the early 1980s.

### **Microfinance in New Zealand**

Before Good Shepherd Microfinance began offering its loan products in New Zealand, a range of small, grassroots, microfinance providers had been offering loans in New Zealand over the previous few decades. Some of these have religious affiliations, such as Kingdom Resources, which provides no interest debt consolidation loans for its eligible budgeting clients. Other programmes have been specifically women-focussed, such as the Angel Fund, available in a number of towns and cities including Nelson, Christchurch and Dunedin, providing small, no interest loans for women to participate in income generating activities such as workplace training or beginning a small business. The Auckland Women's Loan Fund and the Thames/Coromandel Women's Loan Fund are also non-profit organisations providing loans for this purpose. Māori Women's Development Inc. provides loans to start businesses or expand existing businesses specifically for Māori women. In Christchurch, the Just Dollars Trust provides low interest loans for small business start-ups, or to help existing small businesses to expand, alongside business mentoring and advice.

All of these microfinance services aim to increase financial inclusion and financial independence. The most significant difference between microfinance providers like these and Good Shepherd Microfinance, is that the latter provides consumption loans.

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<sup>227</sup> Aviva, "Aviva No Interest Loans." <http://www.avivafamilies.org.nz/Services/No-Interest-Loans/> (accessed July 20, 2014)

## Good Shepherd Microfinance

Good Shepherd Microfinance attempts to provide loans to build assets, and provide an alternative for vulnerable clients who may otherwise use payday lenders to purchase items they consider essential.<sup>228</sup> NILS loans originated in 1981 when the Sisters of the Good Shepherd began loaning money to women on low incomes to buy essential items such as whiteware and appliances, to enable them to live independently.<sup>229</sup> The Sisters began with the aim of allowing people to buy new, high quality items rather than unreliable second-hand items, but without taking on interest bearing debt that was difficult to manage. Their initial \$20,000 investment was able to be recirculated throughout the community as people continued to make repayments, and NILS was expanded as demand increased.<sup>230</sup> Now Good Shepherd Microfinance is the largest microfinance provider in Australia, with a capital repayment rate of almost 95 percent.<sup>231</sup> In collaboration with National Australia Bank and the Department of Social Services, Good Shepherd Microfinance offers a range of services within the context of microfinance, including NILS; StepUP; AddsUP savings schemes; and Good Insurance insurance policies.<sup>232</sup>

The philosophy behind the Good Shepherd Microfinance loans is to enable people to access the resources they need to lead dignified lives.<sup>233</sup> In line with this philosophy, loan agreements are based on trust and respect, and clients are required to sign a loan agreement contract as they would with a commercial lender. Providers of loans do not charge fees or penalties, they charge low or no interest and do not require the loans to be secured against assets, including those purchased using the loan.

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<sup>228</sup> Bennett et al., "Life Changing Loans at No Interest: An Outcomes Evaluation of the Good Shepherd Microfinance's No Interest Loan Scheme (NILS)."

<sup>229</sup> Good Shepherd Microfinance, "The Sisters."

<sup>230</sup> Ibid.

<sup>231</sup> Ayres-Wearne and Palafox, "NILS: Small Loans, Big Changes," 4; Good Shepherd Microfinance, "A Life Changing Journey: 2014 Annual Report."

<sup>232</sup> Good Shepherd Microfinance, "Home." <http://goodshepherdmicrofinance.org.au/> (accessed March 10, 2014)

<sup>233</sup> Ayres-Wearne and Palafox, "NILS: Small Loans, Big Changes," 3.

Loans are issued based on a client's capacity to repay and loan repayments are personalised to suit individual clients, including the ability for clients to be able to vary the amount that is repaid at any stage in the process.

## **Conclusion**

This chapter describes that way that the role of the financial sector in society is increasingly seen as critical for enabling prosperity. This has led to new ways of defining and measuring how different populations use and access finance. Financial exclusion and inclusion are terms that are now being used more often to describe this idea.

Microfinance literature is dominated by developing world research and much of the discourse revolves around whether or not microfinance can ever be a financially self-sustaining response to the problem of financial exclusion. Banks, community organisations and the state all have a potential role in the delivery of microfinance services. Microfinance is a service that has been accessed by significantly more women than men, and will continue to be while women remain overrepresented in the population of people who are financially excluded. The idea of low cost finance is not entirely new to New Zealand, although previously these loans have usually been oriented towards enterprise or employment.

This chapter has provided the context for this policy initiative. The following chapter begins the analysis of the three separate streams as they relate to this microfinance initiative, beginning with the problem stream.

## **Chapter Four – The Microfinance Initiative in the Problem Stream**

Multiple streams theory posits that separate problem, policy and political streams exist and must converge in order for a policy to reach the governmental agenda. This chapter begins by looking at the microfinance initiative in the context of the first of these streams, the problem stream. The problem is ‘problem debt’ and its impact on households in New Zealand. Importantly, the subsequent impact on children and child poverty are issues that are the most critical.

### **Establishing and Interpreting the Problem**

As outlined in chapter two, interpretation by different stakeholders is a critical aspect of determining whether a certain issue is a genuine problem and indicators are used to make comparisons and establish the scale of the problem.<sup>234</sup> In the case of New Zealand’s microfinance policy, the fundamental problem that has been identified is debt, which in and of itself has a high degree of normalcy. However, there is a wide range of types of debt and the type that is taken on depends on the degree of financial exclusion being experienced by a consumer. Those who are financially excluded take on high-interest bearing debt that becomes unmanageable, described by government officials and lobbyists alike as ‘problem debt.’<sup>235</sup>

### **Problem Debt**

Problem debt is often associated with debt incurred by people who take on high-interest loans from ‘third-tier lenders,’ finance companies that provide consumer credit, rather than credit unions and

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<sup>234</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 91.

<sup>235</sup> Expert Advisory Group on Solutions to Child Poverty, “Working Paper no. 13: Problem Debt and Child Poverty”; Valins, “When Debt Becomes a Problem: A Literature Study”; Scobie and Henderson, “Household Debt in New Zealand”; Families Commission, “Pacific Families and Problem Debt.”

building societies (second-tier lenders), or banks (first-tier lenders).<sup>236</sup> Loans can be provided for a variety of reasons from cars and appliances to month-long cash advances, and interest rates that range, legally, from 30 percent to 550 percent per annum.<sup>237</sup> It is not just the high interest that contributes to the ‘problem’ aspect of this debt. When a payment is missed, penalties compound that can make it difficult for consumers to make up missed payments. In addition, loans are often secured against items that can be repossessed and resold at a significant loss, with the consumer remaining liable for the difference and for incurred costs.<sup>238</sup> While the term third-tier lender includes a wide group of credit providers, the emotive term ‘loan sharks’ is widely used to describe many of those lenders. These loan shark businesses are widely described as predatory and extortionate and are notable for being ubiquitous, and very accessible, in low-income areas.

While over-indebtedness is a problem that has been apparent to a number of people in and around government for a number of years, views on the depth and breadth of the problem have differed. An assessment of household debt published by The New Zealand Treasury in 2009 agreed that household debt had increased by significant amounts between 1982 and 2007, however it also placed debt in a different context, noting the fast growth of assets, and concluding that overall, household balance sheets were “stronger in 2002 than any time in the previous two decades.”<sup>239</sup> In 2004, the Ministry of Social Development released a literature review of some of the issues related to debt and over-indebtedness although noted that the impacts, as well as the number of non-mainstream lenders in the market, were understudied.<sup>240</sup> Professor of Public Policy at Victoria University, Jonathon Boston, recalls being a member of a reference group in the mid-2000s that provided advice to the then Chief Executive of the Ministry of Social Development, Peter Hughes:

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<sup>236</sup> Social Research Agency, Colmar Brunton, “Using a Third Tier Lender: Experiences of New Zealand Borrowers.”

<sup>237</sup> Ibid., 4.

<sup>238</sup> St John and Wynd, “Left Behind: How Social and Income Inequalities Damage New Zealand Children,” 129.

<sup>239</sup> Scobie and Henderson, “Household Debt in New Zealand,” iii.

<sup>240</sup> Valins, “When Debt Becomes a Problem: A Literature Study,” vii.

“We met quarterly to discuss critical issues and one of the issues that came before that group, on several occasions, was the problem of problem debt.”<sup>241</sup> Boston believes that the Ministry of Social Development has, over the years, been very concerned about this problem in light of the fact that when people are in significant financial difficulty, the Ministry becomes the “banker of last resort.”<sup>242</sup> In 2009, the Ministry of Social Development published a report entitled *Beyond Reasonable Debt: A Background Report on the Indebtedness of New Zealand Families*, which summarised the indicators for people who found themselves burdened with problem debt.

The Auckland City Mission’s 2014 Family 100 Report gained the attention of people working in this policy area, including Donna Provoost from the Office of the Children’s Commissioner.<sup>243</sup> The Report was based on in-depth case studies and interviews, and provided a platform for clients of the City Mission to relay detailed and personal accounts of their experiences.<sup>244</sup> Clients were aware that loan sharks were expensive, but felt as though they had little choice. They also noted that loan sharks and mobile shopping trucks are accessible; providing pre-approved lines of credit, and even assisting clients to manipulate their applications to ensure success.

### **Problem Debt and the Pacific Community**

One group that has become particularly susceptible to these predatory loans is New Zealand’s Pacific community. In 2007 the Ministry of Consumer Affairs released a report entitled *Pacific Consumers’ Behaviour and Experience in Credit Markets, with Particular Reference to the ‘Fringe Lending’ Market*, in response to anecdotal reports that the implementation of the Credit Contracts and Consumer Finance Act (CCCFA) 2003, had done little to lessen the instances of oppressive credit

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<sup>241</sup> Jonathon Boston, Interview with Nicola Eccleton.

<sup>242</sup> Ibid.

<sup>243</sup> Donna Provoost, Interview with Nicola Eccleton.

<sup>244</sup> Garden et al., “Speaking for Ourselves: The Truth About What Keeps People in Poverty From Those Who Live It.”

contracts in the Pacific community. In addition to lower incomes – 2013 Census data finds that the median income of Pacific people is less than the median income for New Zealand overall<sup>245</sup> – Pacific people have particular cultural obligations that often contribute to their financial burden, such as the expectation to travel back to the islands when important events take place.<sup>246</sup> Many Samoan New Zealanders are susceptible to the usually urgent and often unexpected costs associated with ‘fa’alavelave,’ a term loosely translated to ‘big trouble,’ which can encompass funerals, weddings, birthdays or christenings. There is intense pressure to participate, and to contribute financially, in fa’alavelave, even for those Samoans who have made New Zealand their home.<sup>247</sup> Although they earn relatively low incomes in New Zealand, in nominal terms the incomes of Pacific people working in New Zealand are generally much higher than those who are living in the Pacific. It is probable that the pressure to return for these important events is bolstered by the perception that Pacific New Zealanders are earning higher incomes and can afford it. Pacific New Zealanders are also often likely to feel compelled to give substantial amounts of money to their church.<sup>248</sup> While all New Zealanders face costs that they have little choice over whether to pay, such as rent, power and food, for Pacific people, the financial expectations of their families mean that they can be burdened with extra costs over and above what other New Zealand ethnic groups might consider essential.

Loan sharks know their market too. The Child Poverty Action Group (CPAG) notes the geographical shift of these lenders from the central city into the lower socioeconomic areas.<sup>249</sup> It cites as an

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<sup>245</sup> Statistics New Zealand, “2013 Census.”

<sup>246</sup> Anae et al., “Pacific Consumers’ Behaviour and Experience in the Credit Market with Particular Reference to the ‘Fringe Lending’ Market.”

<sup>247</sup> Dale, Feng, and Vaithianathan, “Microfinance in Developed Economies: A Case Study of the NILS Programme in Australia and New Zealand.”

<sup>248</sup> Anae et al., “Pacific Consumers’ Behaviour and Experience in the Credit Market with Particular Reference to the ‘Fringe Lending’ Market.”

<sup>249</sup> St John and Wynd, “Left Behind: How Social and Income Inequalities Damage New Zealand Children,” 128.

example Manukau City, an area with proportionally very high numbers of Pacific people, which has seen a proliferation of loan sharks as well as gambling outlets and liquor stores.<sup>250</sup>

According to Dr M. Claire Dale, a member of the CPAG Management Committee, and Research Fellow at the University of Auckland's Business School, the scale of the impact of problem debt on families is exacerbated by the fact that people desperate for a loan begin pulling their extended families into the fray by convincing them to sign up as guarantors.<sup>251</sup> It is possible that the familial ties that bind Pacific families make them more vulnerable to this scenario. Because the debt is unmanageable in the first place, the chances are high that these guarantees will be called on, and soon the extended family finds itself burdened by debt; "so the fringe lenders are capturing themselves a long term income stream every time they make a loan."<sup>252</sup>

In 2014, Pacific Island Affairs Minister, Peseta Sam Lotu-liga launched the Talanoa campaign with Consumer Affairs Minister Craig Foss, to "encourage Pacific communities to ask for help and seek redress when they have problems with loans."<sup>253</sup> Foss noted that "Pacific communities are often targeted by third-tier lenders, particularly for motor vehicle and personal loans. Some of these loans come with high interest rates and onerous repayment schedules." The Pacific community is one group that has been affected significantly in the last few decades by the increase in predatory lending practices.

### **Problem Debt and Child Poverty**

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<sup>250</sup> Ibid., 126; Statistics New Zealand, "2013 Census."

<sup>251</sup> M. Claire Dale, Interview with Nicola Eccleton.

<sup>252</sup> Ibid.

<sup>253</sup> Foss and Lotu-liga, "Financial Literacy Campaign Focuses on Pacific Communities."



Another group that has been affected by predatory lenders is parents with dependent children. When parents are trying to pay off unmanageable debt and find themselves in cycles of debt and hardship less money is available for food and essential items for children, accordingly, the impact of problem debt has secured the attention of interest groups focussed on the welfare of children. Children are some of the most vulnerable members of our society, highly dependent on adult care with limited ability to exercise agency. Highlighting the impact of poverty on children draws attention to the worst possible consequences of poverty for low-income New Zealanders and helps to ensure the issue gains prominence in the wider community. Indeed, in New Zealand the wider issue of poverty is inextricably linked with the implications for children.<sup>254</sup> Two high profile groups in New Zealand have drawn attention to the impact of problem debt on children: CPAG, and the Expert Advisory Group on Solutions to Child Poverty (Expert Advisory Group).

CPAG is an independent charity, formed in 1994, that seeks to advocate for children living in poverty. Its 2008 report *Left Behind: How Social and Income Inequalities Damage New Zealand Children* received a significant amount of publicity. It repeatedly argues that the free-market ideology that has shaped New Zealand's legislative environment for the previous two decades has increased the disparity in income and wealth distribution. New Zealand had the greatest growth in income inequality in the OECD during the 1980s and 1990s, based on the Gini coefficient measure.<sup>255</sup> Child poverty, according to the group, must be viewed in the context of income inequality. It lists a number of negative societal outcomes that are correlated with income inequality, including increased incidence of domestic violence, childhood accidents and teenage pregnancy. The report is comprehensive, and covers a large number of issues that relate to children in poverty, and uses income and deprivation indicators to illustrate its point.

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<sup>254</sup> An April 2015 Google search of 'poverty New Zealand' overwhelmingly returned results that referred to child or children in the web page title.

<sup>255</sup> St John and Wynd, "Left Behind: How Social and Income Inequalities Damage New Zealand Children," 14.

There is no, one, nationally recognised way to measure poverty and this has been a point of contention in New Zealand.<sup>256</sup> The CPAG report argues that while many countries use a poverty threshold of 50 percent of equivalised median income,<sup>257</sup> 60 percent of equivalised median income is more suitable for New Zealand as the relatively low income and high living costs mean that living under a 50 percent threshold is untenable. The report then presents a figure that shows New Zealand as the third worst performing country in the OECD using this income measure and includes tables based on OECD figures that depicts New Zealand as one of the worst OECD countries for factors associated with child poverty such as the incidence of preventable diseases and high levels of child abuse. The report states that the welfare reforms of the early 1990s have had a significant, negative effect on child poverty. The group condemns the government's focus on work-related wealth redistribution incentives, for example *Working for Families* tax credits for families with at least one parent in work, as discriminatory for children whose parents are not in work and calls for universal policies that support low-income families regardless of where their income is derived.

The Child Poverty Action Group followed up its 2008 report with a subsequent report in 2011. *Left Further Behind: How Policies Fail the Poorest Children in New Zealand* provides an update on some of the issues previously raised, including income inequality which although no longer rising, remains high. Income inequality is important, the report reiterates, because of the impact on child poverty. What the Child Poverty Action Group has done “brilliantly,” argues MacLennan, is to put the issue of problem debt “squarely on the agenda of child poverty.”<sup>258</sup>

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<sup>256</sup> Boston and Wills, “Child Poverty Fight Needs Long-Term Plan”; Schoultz, “Budget 2015: Bill English Hits Back at Anti-Poverty Figures.”

<sup>257</sup> Equivalised income has been adjusted to account for members of a household, using an age-based weighting system.

<sup>258</sup> Catriona MacLennan, Interview with Nicola Eccleton.

The Expert Advisory Group has been the other group to link problem debt with child poverty. The problem of child poverty had captured the interest of the Children's Commissioner, Dr Russell Wills, and in 2012 he established the Expert Advisory Group to explore the issue and consider possible solutions. The Office of the Children's Commissioner is an independent Crown entity under the Children's Commissioner's Act 2003, and the role of the Commissioner is as an advocate for the rights and interests of children. The Expert Advisory Group took a broad brush approach to the issues that were contributing to child poverty and researched the impact of factors such as high rent, gambling and problem debt.<sup>259</sup> Provoost led the Secretariat support to the Expert Advisory Group, and explained that the Group wanted to acknowledge in its report that there are a number of families living in poverty that are not necessarily low-income, but have high costs, such as those created by the aforementioned factors, that diminished their overall household budget.<sup>260</sup>

The Expert Advisory Group uses a number of comparative markers to argue the scale of the problem. It states that there are 25 percent of New Zealand children living in poverty, using an income after housing costs (AHC) measure. It acknowledges that other measures will result in lower numbers than this, but that poverty is still a "very significant problem" in New Zealand. OECD comparisons are used, which show that New Zealand has a high level of material deprivation among children and high levels of poverty among single-parent families.<sup>261</sup> It also notes that by comparison to other OECD countries housing standards are low, and that for children in low-income households this creates health issues.<sup>262</sup> Economic costs are specified in the report, including the significant cost of short-term remediation such as healthcare and the increased long-term costs such as in the criminal justice system and in lost workforce productivity.<sup>263</sup> The report outlines the impact of poverty on the

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<sup>259</sup> Donna Provoost, Interview with Nicola Eccleton.

<sup>260</sup> Ibid.

<sup>261</sup> Expert Advisory Group on Solutions to Child Poverty, "Solutions to Child Poverty in New Zealand: Evidence for Action," 18.

<sup>262</sup> Ibid., 13.

<sup>263</sup> Ibid., 17.

rights of children; rights that are outlined in the United Nations Convention on the Rights of the Child (UNCROC). This particular context is provided because part of the Office of the Children's Commissioner's statutory function is to monitor whether or not New Zealand is meeting its obligations under UNCROC. The report also provides examples of specific cases to personalise the issue for children living in poverty in New Zealand, such as the "dreadful houses... damp, worn and unsuitable houses for babies and mothers."<sup>264</sup>

One of the recommendations that came out of the reports from CPAG and the Office of the Children's Commissioner was the lack of consistent, comparable measures that enabled issues relating to child poverty to be regularly monitored. It is worth considering that Kingdon's point that the risk of substandard data being used increases as groups seek to corroborate their views could be exacerbated by the lack of agreed measures. Partially due to the recommendations, the Child Poverty Monitor was established as a partnership between the Office of the Children's Commissioner, the JR McKenzie Trust and the University of Otago; a project that aims to regularly monitor and report on child poverty rates and has so far produced reports on this issue annually since 2013. Along with reports, it provides infographics on its website – giving it an increased level of accessibility for the general public - highlighting what are perceived as the most pressing issues relating to child poverty. The website draws similar conclusions to the Expert Advisory Group on and CPAG and the infographics also highlight the impact of long-term poverty; three out of five children have lived in poverty for many years, and more children live in severe poverty than any other age demographic.<sup>265</sup> The case is made for the long-term negative effects of child poverty such as stifled development, higher risk of hospitalisation, infant mortality and diseases associated with overcrowding.

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<sup>264</sup> Ibid., 24.

<sup>265</sup> Child Poverty Monitor, "Child Poverty Monitor."

It appears that problem debt has been on the radar of a number of officials for some years, however it is not certain that it would have been addressed at this particular time without the association with child poverty. People who were interviewed for this project were in agreement that it is much more likely that the issue of problem debt has received attention because it was linked to child poverty. Dale believes the link was “critically important,”<sup>266</sup> while others were more circumspect in drawing conclusions but admitted that it probably was an important factor.<sup>267</sup> Boston was the Co-Chair of the Expert Advisory Group, and his impression is that more empathy is given to problems involving children, and that “other things being equal, you will probably elicit a stronger and more positive response.”<sup>268</sup> The reason for this is fairly obvious; children lack the ability to control most of the situations in which they find themselves.

## **Conclusion**

This chapter has outlined the problem stream that microfinance is seen to be a policy solution for. While there is a range of different types of debt, problem debt is of significant concern to many people in and around government. The Pacific community has specifically been targeted by predatory lenders who are often the source of this problem debt. Families with children have also been affected, and it is this link with children and child poverty that has added a sense of urgency to the problem.

Problem debt is rising in visibility and has a specific emphasis in New Zealand on child poverty and increased income inequality. The political implications of this are discussed in the following chapter.

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<sup>266</sup> M. Claire Dale, Interview with Nicola Eccleton.

<sup>267</sup> Catriona MacLennan, Interview with Nicola Eccleton; Jonathon Boston, Interview with Nicola Eccleton; Donna Provoost, Interview with Nicola Eccleton.

<sup>268</sup> Jonathon Boston, Interview with Nicola Eccleton.

## Chapter Five – The Microfinance Initiative in the Political Stream

This chapter outlines the political stream that existed during the time that microfinance was finding its way on to the agenda. The political stream comprises of the national mood, the political ideology of the time, the political environment and the perspective of organised interests with a stake in the issue and/or the solution. Details of each of these factors follows, beginning with the national mood.

### National Mood

While Kingdon's framework determines that the problem and political streams develop independently, problems can gain visibility in the political stream when activists are able to create social movements that affect the national mood.<sup>269</sup> Politicians then assess the electoral benefits or trade-offs of aligning with the national mood. Problem debt on its own does not seem to have shaped the mood to the extent that politicians perceived a need to respond. However, Dale believes the issue has become more popular as the media has run stories about loan sharks operating in vulnerable communities, raising awareness of the issue.<sup>270</sup> A Factiva database search of New Zealand newspapers shows that the term 'loan shark' was used twice as many times between 2007 and 2014 as it was during the preceding seven years.<sup>271</sup> Lawyer Catriona MacLennan worked as a project manager for the Nga Tangata Microfinance Trust and is often asked to comment on problem debt in the media. Her sense is that there has been an increased amount of coverage of the loan shark problem, however, she concurs with Boston, who does not believe that there is enough concern in the public arena predominantly because the middle class remains largely unaffected.<sup>272</sup> In his role as

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<sup>269</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 149

<sup>270</sup> M. Claire Dale, Interview with Nicola Eccleton.

<sup>271</sup> Factiva search term "loan shark"; Date range 1 January 2001 – 31 December 2014; Source "New Zealand newspapers" (Dominion Post, Manawatu Standard, National Business Review, Truth & TV Extra, New Zealand Press Association, Otago Daily Times, Sunday Star-Times, Taranaki Daily News, The Dominion, The Evening Post, The Nelson Mail, The New Zealand Herald, The Press, The Southland Times, Timaru Herald, Waikato Times)

<sup>272</sup> Catriona MacLennan, Interview with Nicola Eccleton; Jonathon Boston, Interview with Nicola Eccleton.

advisor to various government departments over a number of years, Boston has been required to front a large number of meetings throughout the country, and respond to public questions and concerns; he does not recall a single time where a member of the public raised the issue of problem debt.<sup>273</sup>

While problem debt does not seem to have captured the attention of the public, it is likely that the problems of child poverty and inequality have. A Factiva search of the same New Zealand newspapers lists 955 references to 'child poverty' for the decade between 2000 and 2010, whereas in just four years between 2011 and 2014 the same term appeared 1645 times; 'inequality' appeared 1,507 times between 2000 and 2010, and 2,327 times in just the following four years. This is evidence that child poverty and inequality are social movements that have ultimately had some degree of impact the national mood.

Aside from CPAG, other interest groups commentators and scholars have endorsed the view that inequality is the result of neoliberal economic policies both in New Zealand and internationally. Since 2009 books have been published such as: Wilkinson and Pickett's *The Spirit Level: Why More Equal Societies Almost Always Do Better*; Joseph Stiglitz's *The Price of Inequality*; and *Inequality: A New Zealand Crisis*, edited by Max Rashbrooke. Documentaries have screened at primetime on New Zealand network television, including Bryan Bruce's award-winning *Mind the Gap*, and *Inside Child Poverty*; the latter watched by approximately 500,000 people.<sup>274</sup> In 2009, TV3 hosted a 21 ½ hour 'Telethon' to raise funds for KidsCan, a high-profile, national, charitable trust established in 2005, that specifically aims to mitigate the negative impact of poverty on children's education. Months before the 2014 General Election, a Roy Morgan poll found that "poverty, the gap between rich and

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<sup>273</sup> Jonathon Boston, Interview with Nicola Eccleton.

<sup>274</sup> Matthews, "Child-Poverty Campaigners Say the Move to a Free-Market Economy Has Hurt the Health of New Zealand's Children."

poor or the imbalance of wealth is now ‘the most important issue facing New Zealand,’” among respondents.<sup>275</sup>

While interest groups and the media have largely conflated inequality and child poverty, officials in the current National Government have not. Inequality has become a partisan issue, one that the Labour-led opposition promotes, while National rarely mentions. The *Inside Child Poverty* documentary received a large amount of attention after it screened and received criticism for being politically motivated; it was accused of being too heavily biased towards left wing political parties and its screening a week out from the 2011 General Election was deemed by some to be strategic.<sup>276</sup>

The current government defines the issue of child poverty as a symptom of low income without mentioning any connection to income inequality. In its briefing paper to the Ministerial Committee on Poverty, the Treasury acknowledged the “significant amount of current discussion” about child poverty in New Zealand, including the establishment of the Expert Advisory Group and the publication of the White Paper on Vulnerable Children.<sup>277</sup> Provoost believes that rather than a response to public opinion, the Expert Advisory Group helped shape public opinion by “raising public awareness and ....the threshold of what they would accept for child poverty in New Zealand and saying it’s not acceptable.”<sup>278</sup> The Children’s Commissioner, Dr Russell Wills, was responsible for establishing the Expert Advisory Group, and describes its report as “hugely influential, making a good splash in the media and prompting plenty of discussion” among the public.<sup>279</sup> These comments echo Kingdon’s observation that shaping and reading the national mood is a process of reciprocity and flux.

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<sup>275</sup> Collins, “Poll Finds Rich-Poor Gap Is the Big Election Issue.”

<sup>276</sup> Mullord, “Child Poverty Doco ‘Apolitical’ - Filmmaker”; “Strong Reaction to Damning TV Child Poverty Doco.”

<sup>277</sup> Ministerial Committee on Poverty, “Six Monthly Report of the Ministerial Committee on Poverty,” sec. Appendix 1.

<sup>278</sup> Donna Provoost, Interview with Nicola Eccleton.

<sup>279</sup> Wills, “Child Poverty Is Everybody’s Business.”



MacLennan believes a point has been reached where the Government cannot ignore child poverty anymore and that it needs “to be seen by the public and the media to be doing something, and that’s what led to that microfinance announcement in that 2013 Budget.”<sup>280</sup> A Bill announced as part of the 2015 Budget, which increases work expectations and increases assistance for parents on a benefit, has been named, rather opportunistically, the “Support for Children in Hardship Bill”. This label suggests that MacLennan’s observation is correct; that the Government is eager to be seen to be directly addressing child poverty, which in turn indicates that it perceives the need to do so.

In addition to public sentiment about the problems of debt and child poverty, it is worth considering the impact of the global financial crisis on the national mood. The crisis received a great deal of attention in the media and among people in government. The database Factiva lists 8,630 references to the term ‘global financial crisis’ in New Zealand newspapers between 1 January 2007 and 31 December 2013 and Hansard cites the term 365 times in its records of New Zealand Parliamentary debates for the same period. As discussed in chapter three, the crisis negatively affected people’s trust in the financial sector and created a permissive environment for alternative methods of lending such as peer to peer that excluded traditional banking systems. The financial sector was seen to be making significant amounts of profit at others’ expense and it is possible that after the crisis there was some pressure on the sector to improve its image with the public.

### **Political Ideology**

According to Kingdon’s theory, a change in government is fertile ground for new ideas and new policies. The 2008 election of the relatively conservative National Party signalled a shift right from the previous nine years of government led by the centre-left Labour Party. The National Party, with

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<sup>280</sup> Catriona MacLennan, Interview with Nicola Eccleton.

its core constituency rooted firmly in the farming and business sectors, was re-elected in both 2011 and 2014. The National party lists among its values: individual freedom and choice, personal responsibility, competitive enterprise and reward for achievement, and limited government;<sup>281</sup> values which are closely aligned with neo-liberal, market-dominant ideology.

The National Government frames its social policies within the context of its macroeconomic policies. Its response to the Expert Advisory Group's report begins by listing the Government's achievements so far in improving the lives of low-income New Zealanders, and includes: an increase in jobs and wages; low interest rates allowing people to pay off debt faster; low inflation ensuring minimal increases in the cost of living. It has consistently promoted its strategy of building economic prosperity by increasing the availability of paid employment to provide opportunities for people to move benefits and into work. This strategy is reflected in its second term social welfare reforms, which have included significant changes to the work obligations of parents receiving welfare assistance.

Microfinance lends itself to partnerships with the private and non-government sector. Effectively this allows the National government to create social impact with relatively limited involvement, in line with its value of limited government. The Community Finance Initiative itself is a partnership between Good Shepherd New Zealand, the Bank of New Zealand and the Ministry of Social Development. Not only does microfinance lend itself to such partnerships, but partnerships had already been created to begin microfinance in New Zealand on a small scale prior to the government's involvement. Kiwibank, a New Zealand state owned enterprise, partnered with the Nga Tangata Microfinance Trust in Auckland in 2010, as well as with Aviva and Good Shepherd New Zealand in Christchurch in 2013, to begin providing microfinance loans. Kiwibank and the Nga Tangata Microfinance Trust won the NZI National Sustainable Business Network Awards in 2013,

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<sup>281</sup> National Party, "National's Vision of New Zealand."

suggesting that the concept of microfinance has been received favourably by the business community, which includes a large portion of National's support base.

Additional National values that align with the Good Shepherd Microfinance model are personal responsibility, individual freedom and choice. Good Shepherd Microfinance promotes its loans as enabling people to "define and then to realise their own economic wellbeing and to feel valued and in control of their finances and lives."<sup>282</sup> Microfinance is also promoted as a "loan, not as charity,"<sup>283</sup> with the expectation that people will pay the money back and take personal responsibility for their decision. The importance of individual choice and responsibility is apparent in the press release that announced the funding for the microfinance initiative, which begins "The Government is supporting New Zealanders on low incomes with a suite of measures designed to help them become more independent."<sup>284</sup> Provoost believes that this policy aligns with the values of the current National Government, including the idea that people are responsible for themselves and their own financial well-being; "it's seen as a way to help people get there rather than doing it for them."<sup>285</sup> Boston agrees, describing Good Shepherd Microfinance's work as aligning closely with values of "compassionate conservatism, sensible conservatism, or sensible neoliberalism where the aim is to enhance genuine choice."<sup>286</sup>

### **Ideological Issues Related to the Problem**

In order to define the problem, the Child Poverty Action Group has been prolific with its submissions and reports and uses indicators, markers and statistics to illustrate its arguments. The management board comprises of a large number of academics and the group is heavily focused on research.

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<sup>282</sup> Good Shepherd Microfinance, "Leading the Way in Microfinance."

<sup>283</sup> Good Shepherd Microfinance, "History," n.d.

<sup>284</sup> Bennett, "Microfinance Support for People on Low Incomes."

<sup>285</sup> Donna Provoost, Interview with Nicola Eccleton.

<sup>286</sup> Jonathon Boston, Interview with Nicola Eccleton.

However, one of the problems it may have struck when lobbying for a microfinance policy is it is perceived as left-wing; former Green-MP Sue Bradford went so far as to describe it as a “nascent Leftwing thinktank.”<sup>287</sup> While the problem of child poverty is not necessarily partisan, by placing it in the context of inequality the framing of the problem has been, therefore it is likely that the Child Poverty Action Group came up against some ideological barriers while trying to influence government.

The Expert Advisory Group, while also independent of Government, has more influence by virtue of being assigned its duties by the Children’s Commissioner, who has a statutory role as an advocate of children, and as monitor of New Zealand’s UNCROC obligations. While the issue of inequality was addressed in the Expert Advisory Group’s report, it was no more than a brief mention, although it is uncertain whether that was a genuine reflection of the researchers’ beliefs or a strategic consideration, in light of the ideological leaning of the National Government that would receive the report. Provoost believes that a cross-interest group, bi-partisan approach to child poverty was important. She notes that the previous commissioner, as well as a number of other organisations, had been lobbying for action on child poverty but had never been able to achieve “the same level of traction.”<sup>288</sup> Provoost noted that the decision to involve people who were not just “left of centre” but also from the business community such as “Phil O’Reilly from Business New Zealand,” gave the group some additional cross-sector credibility.

## **Political Environment**

While the National Government won the 2008, 2011 and 2014 elections, each time it has required the support of coalition partners to achieve a majority. One of these partners has been the Māori

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<sup>287</sup> Bradford, “Is It Time to Build a Major Leftwing Think Tank ... and More.”

<sup>288</sup> Donna Provoost, Interview with Nicola Eccleton.

Party, with whom the National Government has a confidence and supply agreement. Under the conditions of this agreement the Government established the Ministerial Committee on Poverty, chaired by Finance Minister, Hon. Bill English. The National Government's need for partners to allow it to pass legislation means that it cannot always follow all its own policies independently and in this case, its agreement with the Māori Party means that it must at the very least, consider poverty as an issue. Māori Party co-leader and Ministerial Committee on Poverty member, MP Marama Fox, insists the Māori Party is the only reason poverty is being addressed. In an email to the researcher in 2015 she stated, "I completely believe it is because of the Māori Party that anyone talks and focusses on poverty."<sup>289</sup> The Māori Party's commitment to the issue of poverty is linked to the overrepresentation of Māori in statistics on poverty.<sup>290</sup>

Fiscal constraints are always an issue in the policymaking sphere.<sup>291</sup> The National Government has specifically campaigned on a commitment to returning to a budget surplus. Combined with its value of less government, National's motivation to spend less is greater than that of its left-leaning opposition. In this context, a policy that is able to provide good value for money is particularly important.

## **Organised Interests**

There are two broad sectors that have a vested interest in a microfinance policy that seeks to address problem debt. The first is the social service sector, which includes frontline staff such as social workers and budget advisors who are dealing with the consequences of unmanageable debt on a daily basis. A number of those in the social service sector have been favourable towards microfinance, including the organisations that collaborated with CPAG to establish Nga Tangata

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<sup>289</sup> Fox, "Ministerial Committee on Poverty."

<sup>290</sup> The Treasury, "Treasury Report: Data on Poverty in New Zealand."

<sup>291</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 136.

Microfinance Trust: The New Zealand Federation of Family Budgeting Services and the New Zealand Council of Christian Social Services. Aviva and Good Shepherd New Zealand also provided tangible support for microfinance in the form of a microfinance pilot in Christchurch. Microfinance was also identified as a possible solution to problem debt in the Auckland City Mission's Family 100 Research Project. It identified the damage caused by bad credit and the "poverty premium" low income people, and people with bad credit histories, pay to access credit and it referred to microfinance as a possible solution.<sup>292</sup> While there may not be consensus on microfinance itself as a policy response, it is certain that there is consensus in the social services sector towards addressing the issue of problem debt and its consequences for families living in poverty. Importantly, there appears to be a lack of opposition to microfinance in the social services sector.

The other vested interest is credit providers. In this case, third-tier lenders competing with microfinance loans provided to low income people would be most affected. While it is certain that they would oppose the introduction of these loans, they are relatively small players in the larger financial sector. The major players in the financial sector, namely the big banks, acknowledge their inability to compete in the "short-term, small-value loans market,"<sup>293</sup> and consequently their business is not directly affected. However the issue is not nearly so clear cut as it appears as mainstream banks provide capital for some third tier lenders. Larger finance companies such as Instant Finance and F&P Finance (Farmers Card and Q Card) who often provide vehicle finance and finance on appliances have been funded by New Zealand's biggest banks.<sup>294</sup> A report into third tier lending prepared for the Ministry of Consumer Affairs includes a wide range of third tier loans that could be described as acceptable through to exploitative: interest rates of 16 percent through to 498

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<sup>292</sup> Garden et al., "Speaking for Ourselves: The Truth About What Keeps People in Poverty From Those Who Live It," 6.

<sup>293</sup> Ministry of Consumer Affairs, "Financial Summit 2011 - Access to Affordable Credit / Social and Community Lending Breakout Group."

<sup>294</sup> Stock, "Banks behind Marginal Lending."

percent per annum; a range of items from cars to cash; and with a range of fee structures.<sup>295</sup> Many of these would not be considered predatory and there is some degree of uncertainty about what is fair and what isn't. Publically the mainstream banks distance themselves from many third tier lenders arguing that banks adhere to responsible banking practices, and advocate for responsible standards across the sector.<sup>296 297</sup>

The financial sector as a whole does not oppose microfinance, on the contrary, its contribution is critical to the policy. By providing capital to a programme that has a 96 percent repayment rate, banks are able to make a significant contribution to social good for a relatively small cost. A bank is able to provide thousands, even millions, of dollars in loan capital for the cost of the write-offs and the opportunity cost of the interest that is not being earned, rather than the total value of the capital itself. For an organisation looking to leverage maximum return from a corporate social responsibility investment, microfinance represents good value. Bank of New Zealand, provider of capital for the Community Finance Initiative, indicated it was committed to a low interest car loan product as part of its corporate responsibility strategy regardless of whether or not government decided to become involved.<sup>298</sup>

Multiple streams outlines the importance of consensus or conflict within or between interest groups. There is a need to strike a balance between the interests for, and against, a proposal, and Kingdon argues that there is a "price that will be paid" for implementing a policy that does not suit one or more parties.<sup>299</sup> There is little evidence of conflict here, or of a 'price' that would be cause for

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<sup>295</sup> Social Research Agency, Colmar Brunton, "Using a Third Tier Lender: Experiences of New Zealand Borrowers," 25.

<sup>296</sup> New Zealand Bankers Association, "Media Release: Consumer Credit Law Should Be Well-Targeted and Enforced."

<sup>297</sup> The New Zealand Banking Association includes 15 member banks including the 'Big Four' ANZ, ASB, BNZ and Westpac.

<sup>298</sup> Ministry of Social Development, "Update on Microfinance Initiative. Report: To Hon. Paula Bennett, Minister for Social Development."

<sup>299</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 150.

much concern. While the third tier lenders may oppose the policy, their reputations among the general public as unscrupulous sharks, would prevent those in and around government from placing much weight on their interests. In any event, those interests are overshadowed by the interests of the broader financial sector. It is also worth considering that the financial sector as a whole may have its own perception of the 'national mood'; it may perceive that the government is under pressure to address a lack of regulation in the sector and that the introduction of government sponsored affordable credit into the market is a more palatable option than increased regulation.

## **Conclusion**

This chapter has outlined the political and ideological context leading up to the microfinance initiative appearing on the government's agenda. It is probable that the prevailing national mood was influenced by social movements that were concerned with child poverty and inequality. An assessment of the national mood by politicians and those close to them influenced the decision to begin addressing some of the factors contributing to child poverty, including problem debt. Microfinance as a policy solution was well suited to the ideological leanings of a centre-right National Government.

The organised interests that would oppose a microfinance programme are small third-tier lenders who comprise only a small proportion of the larger financial sector that distances itself from those lenders. Additionally, it would be politically risky for any politician to back third-tier lenders who are deeply unpopular with a large portion of the general public. The political stream was well aligned to choosing microfinance as a policy solution, a solution that is outlined in the following chapter on the policy stream.



## Chapter Six – The Microfinance Initiative in the Policy Stream

The third stream to be explored in the context of the microfinance initiative is the policy stream. As a policy alternative, microfinance's strength is that it provides an alternative form of credit to predatory lenders, while at the same time effecting a number of other positive outcomes from increased financial capability through to family violence prevention. Good Shepherd Microfinance's loans come with a 30 year history of positive social outcomes in Australia.

### Alternative Credit

Low and no interest loans have been promoted as a solution to problem debt because they provide an alternative form of credit for those people who are excluded from mainstream finance. As outlined earlier in the chapter on financial exclusion, while many consumers understand that third-tier lenders are expensive, they often feel that they have no other choice when they have essential costs. Good Shepherd Microfinance's loans provide "safe, fair and affordable credit."<sup>300</sup> They have no penalties or fees and are unsecured. Low-income clients who find they are unable to make repayments are able to make variations to their repayment schedule and ultimately can default on their loan with few financial repercussions.<sup>301</sup> Proponents hope that this credit option will give people the choice to avoid the high interest, unmanageable forms of debt and thereby "displace predatory lenders."<sup>302</sup> In Australia, Good Shepherd Microfinance has established Good Money stores, providing NILS and StepUP loans as well as AddsUP savings accounts. The motivation has been to establish a retail presence in some of the areas where payday lenders are commonplace,

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<sup>300</sup> "The No Interest Loan Scheme - No Fees Interest or Charges."

<sup>301</sup> An unpaid StepUP loan will register as a default on the client's credit history although an unpaid NILS loan won't, and in the case of both loan products clients who have not paid in full will be excluded from accessing the loans in the future.

<sup>302</sup> Ministry of Consumer Affairs, "Financial Summit 2011 - Access to Affordable Credit / Social and Community Lending Breakout Group."

and begin to compete with them directly.<sup>303</sup> Good Money has already been identified by one large payday lender as its reason for exiting the Australian market.<sup>304</sup>

### **Increased Financial Capability**

The Cabinet Social Policy Committee noted that “financial education will be integrated into the delivery of a microfinance scheme.”<sup>305</sup> The application process for NILS and StepUP requires clients to prepare a budget, with support from a microfinance worker, to establish whether or not they have enough budget surplus to make repayments without incurring further hardship. Importantly, the budget is completed as part of the application in the same way as would be required for a bank loan, rather than because of an assumption that clients do not know how to budget and reinforcing flawed stereotypes that somehow people are financially excluded because they lack budgeting skills. For some clients, this is the first time they have ever completed a budget, a skill they believe will be useful in the future.<sup>306</sup> Other clients, who considered themselves to already be effective money managers, believe that their money management skills have improved by participating in the loans process; including improved budgeting and use of instalment plans, and improved confidence in dealing with banks and utilities companies.<sup>307</sup> This is supported by research that finds most people learn how to manage money through life experience.<sup>308</sup> Research consistently finds that there is a role for loans workers to play in ensuring that clients are using bank accounts with the most appropriate fee structures, and helping them to minimise utility bills, as well as ensuring benefits are

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<sup>303</sup> Good Shepherd Microfinance, “Good Money Stores Achieve Milestone in Customer Engagement.”

<sup>304</sup> “Good Shepherd Microfinance: Annual Report 2012-2013,” 22.

<sup>305</sup> Ministry of Social Development, “Update on Microfinance Initiative. Report: To Hon. Paula Bennett, Minister for Social Development.”

<sup>306</sup> Bennett et al., “Life Changing Loans at No Interest: An Outcomes Evaluation of the Good Shepherd Microfinance’s No Interest Loan Scheme (NILS).”

<sup>307</sup> Ayres-Wearne and Palafox, “NILS: Small Loans, Big Changes,” 32; Hems et al., “A little help goes a long way: measuring the impact of the StepUP loan program,” 24.

<sup>308</sup> Mouy, “Just Credit, Good Practice,” 23.

being paid correctly.<sup>309</sup> Provoost also notes that Good Shepherd Microfinance's products reflect some of the key tenets of behavioural economics; they provide opportunities and incentives for people to create changes for themselves, and work towards their own financial independence.<sup>310</sup> Good Shepherd Microfinance's research consistently provides evidence its loans provide not only access to credit, but in many cases, opportunities to improve financial capability.<sup>311</sup>

## **Social Benefits**

While NILS and StepUP have been identified as a response to problem debt, they have the potential to create social benefits, particularly for those who would have gone without essential items rather than take on high-interest bearing debt. In Australia, reported effects of NILS loans have been related to the presence of the item that had been purchased with the loan, including the improved ease of daily life and the reduction in stress.<sup>312</sup> In some cases the addition of the new appliance had an immediate, positive effect on finances, for example reduced power bills from a newer, more energy efficient appliance.<sup>313</sup>

One of Good Shepherd Microfinance's guiding principles is that its clients need to feel as though they are valued and have been treated with respect. Provoost echoed the importance of this for clients, noting that the participants in the Auckland City Mission's Family 100 Research Project had

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<sup>309</sup> Ayres-Wearne and Palafox, "NILS: Small Loans, Big Changes," 19; Corrie, "Microfinance and the Household Economy. Financial Inclusion, Social and Economic Participation and Material Wellbeing," 54; Landvogt, "Money, Dignity and Inclusion: The Role of Financial Capability," 38; Mouy, "Just Credit, Good Practice," 22; Bennett et al., "Life Changing Loans at No Interest: An Outcomes Evaluation of the Good Shepherd Microfinance's No Interest Loan Scheme (NILS)."

<sup>310</sup> Donna Provoost, Interview with Nicola Eccleton.

<sup>311</sup> Bennett et al., "Life Changing Loans at No Interest: An Outcomes Evaluation of the Good Shepherd Microfinance's No Interest Loan Scheme (NILS)."; Ayres-Wearne and Palafox, "NILS: Small Loans, Big Changes"; Good Shepherd Youth and Family Service and National Australia Bank, "A Step in the Right Direction? A Report into the Step UP Loan Program, 2004-2007."

<sup>312</sup> Ayres-Wearne and Palafox, "NILS: Small Loans, Big Changes," 29.

<sup>313</sup> Ibid.

identified the importance of feeling valued and not judged as a reason why they kept returning to third-tier lenders.<sup>314</sup> In Australia, NILS clients have identified the importance of being treated with respect by the loan workers, and have described it as contributing to improved self-esteem and a renewed sense of hope for the future.<sup>315</sup>

Good Shepherd Microfinance's NILS clients have identified both immediate and longer term benefits of receiving a microfinance loan. Evaluations from their programmes have categorised the effects of the loans into: emotional benefits; material/physical benefits; improved family relationships; financial benefits; social benefits; educational benefits.<sup>316</sup> Within these categories, they include responses from clients such as that they and their children are able to participate and access products and services that their peers can access, a reduction in stress, improved confidence in their achievements and feeling empowered.<sup>317</sup> NILS and StepUP clients feel that an increased sense of pride in their home, for example from a new lounge suite, means that they feel more comfortable hosting family and friends.<sup>318</sup> Clients have identified a link between Good Shepherd Microfinance loans and their desire to participate in their local community.<sup>319</sup> Respondents to surveys identified the feeling of accomplishment that came with paying back the loan, and noted that that would not have been felt if they had been donated the goods.<sup>320</sup> A number of clients have credited the ability to access a loan to directly address their immediate needs with their ability to plan further into the future.<sup>321</sup>

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<sup>314</sup> Donna Provoost, Interview with Nicola Eccleton; Garden et al., "Speaking for Ourselves: The Truth About What Keeps People in Poverty From Those Who Live It."

<sup>315</sup> Ayres-Wearne and Palafox, "NILS: Small Loans, Big Changes," 29.

<sup>316</sup> Ibid., 36.

<sup>317</sup> Ibid., 35.

<sup>318</sup> Ibid., 41; Corrie, "Microfinance and the Household Economy. Financial Inclusion, Social and Economic Participation and Material Wellbeing," 63; Hems et al., "A little help goes a long way: measuring the impact of the StepUP loan program."

<sup>319</sup> Ayres-Wearne and Palafox, "NILS: Small Loans, Big Changes," 44.

<sup>320</sup> Ayres-Wearne and Palafox, "NILS: Small Loans, Big Changes."

<sup>321</sup> Ibid., 47.

Dale agrees that the advantage of this particular policy solution is that it is multi-faceted, providing an alternative form of credit and in doing so, promoting both financial capability and social justice.<sup>322</sup> She also notes the positive way Good Shepherd Microfinance's programmes have generated a great deal of community support and engagement in Australia, by maximising the resources of existing community organisations.<sup>323</sup>

## **Family Violence**

No and low interest loans provide a response to the problems some people face when they are affected by family violence. They provide access to credit for people on low incomes, for essential items to set up new homes when they leave a violent relationship. They also provide access to credit for those people whose credit history is poor, often as a result of sexually transmitted debt. StepUP loans can be used to purchase cars, which are so often critical to clients' safety plans, and to their social inclusion. Access to credit for those who would otherwise be excluded reduces the barriers to leaving violent relationships.

In 2015, Good Shepherd Microfinance implemented an online training programme entitled *Women and Money: An Introduction to Financial Abuse*, across its Australian microfinance network.<sup>324</sup> The organisation considers that microfinance workers are well-placed to identify signs of financial abuse and make the appropriate referrals for support because they discuss personal details of clients' budgets during the application process. Good Shepherd Microfinance's CEO Dr Christine Nixon believes that microfinance workers "have the chance to be the circuit breaker – to address the issue and steer (clients) towards appropriate support services."<sup>325</sup>

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<sup>322</sup> M. Claire Dale, Interview with Nicola Eccleton.

<sup>323</sup> Ibid.

<sup>324</sup> Good Shepherd Microfinance, "Innovative New Program To Tackle Hidden Form of Family Violence."

<sup>325</sup> Ibid.

Financial exclusion leads to social exclusion and isolation, which are serious risk factors for those who may be abused therefore, microfinance is also a tool that can aid in the prevention of family violence. By increasing financial capability and providing access to safe credit the programme can increase the financial inclusion and independence of people, particularly women, who are at risk of being financially abused, thereby preventing family violence. In addition, financial hardship can cause stress and increase the risk of violence occurring.<sup>326</sup> The provision of microfinance as an alternative to unmanageable debt is a tool to begin relieving some of this hardship and stress on vulnerable families.

### **Tried and Tested**

Good Shepherd Microfinance claims to have created a “track record” that provides credibility among “governments, businesses, researchers and communities across Australia.”<sup>327</sup> This track record certainly assists New Zealand policymakers, by providing evidence of the outcomes that may be achieved, and an indication of the risks or unintended consequences that need to be managed. The Cabinet Social Policy Committee paper on microfinance notes that by investing first in a pilot programme the Government will be able to “manage risk and build knowledge about programme design in the New Zealand context”.<sup>328</sup> However, the Community Finance Initiative to which this refers is not Good Shepherd Microfinance’s first foray into New Zealand; Nga Tangata Microfinance began offering Good Shepherd Microfinance’s NILS loans in Auckland in 2011, and Aviva has been working with Good Shepherd New Zealand on its NILS programme since 2013. These programmes provided a base of knowledge about the NILS loans in New Zealand, established partnerships

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<sup>326</sup> Renzetti, “Economic Stress and Domestic Violence.”

<sup>327</sup> Good Shepherd Microfinance, “History.”

<sup>328</sup> Ministry of Social Development, “Cabinet Social Policy Committee: Minute of Decision: Expanding the Reach of Microfinance.”

between community organisations, donors and banks, and absorbed a certain amount of risk prior to the Government's involvement.

## **Cost Considerations**

The cost considerations have been addressed largely by using a partnership model that allows government to implement the policy by providing "some financial support."<sup>329</sup> For the Community Finance Initiative's 12 month pilot, the Ministry of Social Development committed up to \$250,000 towards operating costs. This financial support from government, per loan, is forecast to be equal to the funding contribution currently provided to budgeting services.<sup>330</sup> This provides a point of reference, to an amount of funding allocated to a similar policy, providing decision-makers with knowledge of what costs may be palatable to the general public and other stakeholders. This government involvement is both low-cost and low-risk, with the private sector responsible for the total capital that is loaned; the 12 month pilot secured a \$10 million commitment from the Bank of New Zealand.<sup>331</sup> Even in the absence of penalties, Good Shepherd Microfinance's repayment rates in Australia remain around 95 percent, ensuring capital is largely retained. As well as financial support for operating costs, the government is able to provide non-financial support to assist these programmes, by reducing compliance costs and ensuring the legislative environment can accommodate such schemes. Government is able to promote its support for a programme that has the capacity to disburse \$10 million worth of loans at a time, for just a few hundred thousand dollars of taxpayer funding.

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<sup>329</sup> Expert Advisory Group on Solutions to Child Poverty, "Working Paper no. 13: Problem Debt and Child Poverty."

<sup>330</sup> Ministry of Social Development, "Expanding the Reach of Microfinance (Aide-Memoire: Cabinet Paper)."

<sup>331</sup> BNZ, "BNZ Commits \$50 Million Community Loans."

The attraction of the cost effectiveness of the policy was a theme repeated by interview subjects also. MacLennan believes that the low cost aspect of the programme allowed the Government to publicly take credit for a new policy solution, with “little financial investment,” and that was “the main attraction” for the Government.<sup>332</sup> Dale asserted that at such a low cost, it would be difficult to find a more cost effective policy that had the potential to make such a difference in people’s lives.<sup>333</sup> Boston argues that not only is the programme low cost for the government, but long term, there is large potential for the government to be directly better off, as fewer people look to Work and Income for support addressing unmanageable debt and ongoing financial hardship.<sup>334</sup>

### **Alternative Policies in the Policy Soup**

As multiple streams theory suggests, there are always other alternatives in the ‘policy soup’ that are rejected for variety of reasons. This microfinance programme received agenda status during a period of time that saw not only policy rejections, but additional policies adopted to address the issue of problem debt. A number of these other policies, both adopted and rejected, are included here because they provide additional insight into the agenda-setting process.

In 2009 the Credit Reforms (Responsible Lending) Bill was introduced, sponsored by the opposition Labour Party, which failed at its first reading. However the governing National Party did pick up the issue, introducing instead the Credit Contracts and Financial Services Law Reform Bill. This was split into two subsequent bills; the bill relevant to problem debt became the Credit Contracts and Consumer Finance Amendment Act in 2014. In 2011, Hon Simon Power, Minister of Commerce, hosted a summit attended by stakeholders in the financial sector including representatives from

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<sup>332</sup> Catriona MacLennan, Interview with Nicola Eccleton.

<sup>333</sup> M. Claire Dale, Interview with Nicola Eccleton.

<sup>334</sup> Jonathon Boston, Interview with Nicola Eccleton.



banks, community organisations and the legal sector. The objective of the summit was to “help people trapped in a debt spiral”.<sup>335</sup>

The 2014 Amendment Act increased the obligations on credit providers. Provisions included: an extension of the ‘cooling off period’ that allows consumers to cancel their contract, from three to five days; allowing borrowers to make hardship applications even after they have defaulted on some loan payments; prohibiting lenders from securing loans against a number of essential items such as beds, washing machines and fridges; and increasing penalties for breaches of the Act. A key change is the introduction of new ‘lender responsibility principles’ requiring lenders to exercise care and diligence before lending to consumers. The Responsible Lending Code was also developed to provide guidance for lenders as to how they can meet the threshold for responsible lending. The Code obliges lenders to establish whether the credit product is fit for the borrower’s purpose, to establish the borrower’s ability to repay without incurring financial hardship and increases transparency for consumers to make an informed decision. While not compulsory, following the Code ensures that lenders will meet their legal obligations.

Capping interest rates is a policy solution that has been debated but does not seem to have been seriously considered to address problem debt during this period. In advocating for interest rate caps and authoring several papers and submissions, Dale has argued that New Zealand is acting outside of norms established by other comparable countries.<sup>336</sup> Interest rate caps are included in the opposition Labour Party’s policies, and a number of predominantly Labour and Green MPs argued during the Third Reading of the Credit Contracts and Consumer Finance Amendment Bill that by omitting interest rate caps, the Bill did not do enough for addressing problem debt. At various stages during the process, submissions advocating for the introduction of caps were made by a range of

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<sup>335</sup> Ministry of Consumer Affairs, “Financial Summit Programme.”

<sup>336</sup> Dale, “New Zealand’s Debt Society and Child Poverty”; M. Claire Dale, Interview with Nicola Eccleton.

groups such as Nga Tangata Microfinance, the New Zealand Council of Christian Social Services, the CPAG, as well as Age Concern and the Auckland Regional Public Health Service.<sup>337</sup> Good Shepherd Microfinance and Good Shepherd Australia New Zealand's submission also argued for interest rate caps. They noted that anecdotal evidence from Australia's recent legislative changes showed that "irresponsible practices of fringe lenders" were decreasing where interest rate caps had been imposed, and stated their support for "limits" on the amount of money that can be made from "financially excluded customers."<sup>338</sup>

An Expert Advisory Group working paper on problem debt noted that Australia, the United States and Canada all use interest rate caps, and that their absence in the new legislation is of concern.<sup>339</sup> However it goes on to outline the objections to interest rate caps, including some unintended consequences such as the potential to restrict loans that are not necessarily unfair and unsafe, and increase financial exclusion.<sup>340</sup> It also summarises the unintended consequences identified by the Ministry of Consumer Affairs: that caps with too low a limit become a target interest rate for lenders, rather than a ceiling; borrowers can be driven to black market credit; and the lender could increase fees and charges to recoup the lost profit margin.<sup>341</sup> The Ministry concluded that interest rate caps are "difficult to design in a way which ensures that they cannot be circumvented by credit providers and do not create unintended consequences."<sup>342</sup> During the second reading of the Credit Contracts and Financial Services Law Reform Bill, the Minister of Consumer Affairs argued that while

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<sup>337</sup> Martin, "Submission (on Draft Credit Contracts and Consumer Finance Amendment Bill)"; New Zealand Council of Christian Social Services, "Draft Responsible Lending Code - Submission"; Rainger and Sinclair, "Submission on the Draft Responsible Lending Code"; Child Poverty Action Group, "Submission on the Credit Contracts and Consumer Finance Act"; Nga Tangata Microfinance Trust, "Submission to the Finance and Expenditure Committee, Financial Service Providers (Registration and Dispute Resolution) Bill."

<sup>338</sup> McIlwain and Eccles, "Comment on the New Zealand Responsible Lending Code," 8.

<sup>339</sup> Expert Advisory Group on Solutions to Child Poverty, "Working Paper no. 13: Problem Debt and Child Poverty," 6.

<sup>340</sup> Ibid.

<sup>341</sup> Ibid., 7.

<sup>342</sup> Office of the Minister of Consumer Affairs, "Responsible Lending Requirements for Consumer Credit Providers," 11.

the select committee had discussed the possibility of interest rate caps, it was concerned about the unintended consequences and concluded that the other provisions in the bill would suffice to deter unaffordable loans.

There are obvious ideological barriers for the National government to introducing a policy such as interest rate caps that would be seen as direct market interference, and contrary to its values of freedom of choice. MacLennan and Dale both agreed that interest rate caps are an ideological non-starter for the current Government, as the National party is driven by a free-market ideology and its members would prefer to see the market left to address such issues. Boston also believes there is an element of suspicion in New Zealand towards government involvement in the banking sector. While there is an argument to be made that government-backed microfinance is just that, it is also possible that the significant involvement of the private sector overshadows the perception of government interference.

## **Conclusion**

There are a number of reasons why this particular microfinance programme could be considered an attractive policy solution. It comes with a strong evidence base from its application in Australia and its cost considerations have been addressed. Positive outcomes are possible not only from the product itself but from the method of delivery. Alternative policies that were both adopted and rejected reinforce the idea that ideology played a significant part in ensuring that acceptable policies did not appear to interfere with market mechanisms.

This chapter completes the three independent streams that multiple streams theory describes. The vital aspect of this theory is that these streams couple, and this is detailed in the following chapter.

## Chapter Seven – Entrepreneurs, Windows and Coupling

The most critical aspect of multiple streams theory is that the three streams - the problem, political and problem streams – come together at a certain point, known as coupling. Coupling is a deliberate action undertaken by policy entrepreneurs. For the policy to then reach the agenda, the coupling must occur when a policy window is open.

### Policy Entrepreneurs

Policy entrepreneurs are advocates of a proposal, either inside or outside of government, who are willing to risk their resources and reputation to support and promote a particular policy proposal.<sup>343</sup>

In this case, advocates of microfinance come from a diverse range of sectors, including non-government agencies, commercial interests, academics and lobbyists.

Policy entrepreneurs actively promote the positive aspects of their preferred proposal. One such entrepreneur was CPAG, which first promoted microfinance in its 2008 report, *Left Behind*, and the potential for microfinance to alleviate financial hardship by offering alternative credit to low income families.<sup>344</sup> CPAG first advocated for a microfinance programme to be established in New Zealand in its 2008 report, *Left Behind*. The group's interest in microfinance is led largely by Dale, who established the Nga Tangata Microfinance Trust in South Auckland after chancing upon a Good Shepherd Microfinance conference while at a convention centre in Australia.<sup>345</sup> With the support of the New Zealand Council of Christian Social Services and the New Zealand Federation of Family Budgeting Services, Nga Tangata Microfinance was established, and subsequently formed a partnership with Kiwibank to provide loan capital. Nga Tangata Microfinance was accredited by

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<sup>343</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 122.

<sup>344</sup> St John and Wynd, "Left Behind: How Social and Income Inequalities Damage New Zealand Children."

<sup>345</sup> M. Claire Dale, Interview with Nicola Eccleton.

Good Shepherd Microfinance to provide its NILS loans, and the first of these was disbursed in 2011.

The Federation of Family Budgeting Services is a network of budget advice services, and the advisors that work in those services fill the role of microfinance workers to assess clients and support them to make a loan application.

The involvement of the Good Shepherd network was a critical factor in the ability of this initiative to reach the policy agenda. Good Shepherd Microfinance provided a significant amount of credibility and institutional knowledge and resources. The Good Shepherd New Zealand Trust partnered with Aviva, a specialist domestic violence agency in Christchurch, to support women and children in the aftermath of the Christchurch earthquakes and soon after supported Aviva's NILS pilot programme. This was a strategic decision by the Good Shepherd New Zealand Trust, that stated its involvement in the Aviva NILS programme was aimed at encouraging the Government to support microfinance in New Zealand, so that it may be able to be scaled to reach a larger proportion of those in need.<sup>346</sup>

Aviva was also a microfinance policy entrepreneur. In 2011, Aviva implemented a new strategy that focussed on providing services to all members of the family, not just women and children, at various stages of people's journey away from violence.<sup>347</sup> Financial hardship and financial exclusion were identified among a large number of clients, and Aviva agreed to partner with Good Shepherd and Kiwibank to trial the second New Zealand NILS programme, and promote the potential benefits for those affected by family violence.

Kiwibank's corporate social responsibility and sustainability strategy has focussed on microfinance since 2010. Kiwibank has provided the loan capital for both of Aviva and Nga Tangata's microfinance programmes, the first two of their type in New Zealand. Kiwibank has also supported the Auckland

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<sup>346</sup> Good Shepherd Asia Pacific, "The Good Shepherd New Zealand Trust." <http://www.goodshepherd-asiapacific.org.au/project/45> (accessed November 9, 2014)

<sup>347</sup> Aviva, "Welcome to Aviva." [www.avivafamilies.org.nz](http://www.avivafamilies.org.nz) (accessed November 9, 2014)

Microfinance Initiative, a student club established at the University of Auckland, dedicated to promoting microfinance in New Zealand.

### **The Policy Window**

Sometimes a policy window opens because a problem “captures the attention” of people in government.<sup>348</sup> There are indications that people in and around government have been cognisant of the issue of problem debt for some time, however it appears that the problem of child poverty was the association that provided the impetus for action. In 2009, the Nga Tangata Microfinance Trust was established, with CPAG involved as a founding partner. The Trust provided NILS as a solution and in doing so, coupled the policy of microfinance with problem debt and child poverty. People in government were soon made aware of this coupling between microfinance and child poverty; Dale confirmed that discussions with Hon. Paula Bennett, then Minister for Social Development, began early on in the development of the Trust’s NILS programme.<sup>349</sup>

In the political stream, the most predictable window is an election that results in a new administration.<sup>350</sup> The new National Government was elected in November 2008. It is certainly possible that a new administration brought a new perspective or energy to the problem, or that it captured the attention of someone wanting to make their mark in the new administration. However, problem debt was not being highlighted by the new government but rather by the opposition Labour Party whose MP Charles Chauvel, had drafted the Credit Reforms (Responsible Lending) Bill that was pulled from the ballot in 2009. This suggests that it was the problem stream that was primarily responsible for opening the policy window. As noted in chapter two, sometimes a window opens because a problem can no longer be ignored.

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<sup>348</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 168.

<sup>349</sup> M. Claire Dale, Interview with Nicola Eccleton.

<sup>350</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 168.

## Coupling the Streams

In the case of microfinance policy in New Zealand, there are three separate streams, and evidence of coupling taking place. It is the “combination of these streams” that is important, and “no one factor dominates or precedes the others.”<sup>351</sup>

The policy entrepreneurs’ critical role, to link the policy with the problem, was first undertaken by CPAG largely thanks to the work of Dr M. Claire Dale. CPAG was one of the first groups in New Zealand to link microfinance to the type of unmanageable debt that impacts child poverty, by recommending microfinance as a solution in its flagship report, *Left Behind*. While it was a serendipity that introduced Dale to Good Shepherd Microfinance, it was her vision and resources that introduced NILS loans to New Zealand through Nga Tangata Microfinance. By creating the Trust, supported by a number of other social service agencies and a bank, Dale and CPAG provided evidence that both the private and NGO sectors were prepared to invest significant resources into this policy solution. Importantly, she involved Good Shepherd Microfinance, which brought credibility and experience. Dale believed Nga Tangata’s work showed the Government that there was an “appetite” for a microfinance service like this.<sup>352</sup>

There does not appear to have been a linear spread of information; the Expert Advisory Group was not aware of Nga Tangata’s work before it first began looking at microfinance. Instead, there appears to be overlapping circles as the members of the Expert Advisory Group began talking with Good Shepherd Microfinance in Australia,<sup>353</sup> while at the same time Good Shepherd Microfinance was in the early stages of working with Nga Tangata.

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<sup>351</sup> Ibid., 179.

<sup>352</sup> M. Claire Dale, Interview with Nicola Eccleton.

<sup>353</sup> Jonathon Boston, Interview with Nicola Eccleton.

The Office of the Children’s Commissioner made the key link to the political stream, by creating an advisory group from across constituencies and reframing the problem in a different perspective from one that had become distinctly left-wing and embedded in a debate about inequality. Once the Expert Advisory Group had identified microfinance was a solution worth exploring more fully, it brought together stakeholders such as Good Shepherd New Zealand, the bankers association, and officials from various ministerial departments that may have an interest in the area.<sup>354</sup> Provoost believes this provided “a bit of a spark” and “got the right people in the room.”<sup>355</sup>

Murray Edridge, Deputy Chief Executive, Community Investment, for the Ministry of Social Development specifically notes that “The Community Finance pilot was initiated in response to a recommendation made through the report of the Expert Advisory Group on Solutions to Child poverty.”<sup>356</sup> While this recommendation appears to be the determinant for getting this policy on the agenda, Nga Tangata and Good Shepherd’s early role was important. Once the recommendation reached the Ministerial Committee on Poverty, politicians and policymakers had begun hearing about the idea from different sources. People in and around government had been softened up to the idea of microfinance, thanks to these early forays into no and low interest loans; “Without this preliminary work, a proposal sprung even at a propitious time is likely to fall on deaf ears.”<sup>357</sup>

Ministry of Social Development Advisor Tim Garlick observed that while there had been some earlier history with microfinance in New Zealand, none of those programmes had established the type of partnerships with the banks and social service agencies that Nga Tangata and Good Shepherd Microfinance had; these test cases provide learning opportunities and make it “easier for these kinds

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<sup>354</sup> Donna Provoost, Interview with Nicola Eccleton.

<sup>355</sup> Ibid.

<sup>356</sup> Edridge, “Letter to Nicola Eccleton.”

<sup>357</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 128.



of initiatives to take off.”<sup>358</sup> Nga Tangata Microfinance Trust’s partnership model provided evidence that Good Shepherd Microfinance was interested in entering the New Zealand market and that a bank was prepared to come to the party with loan capital. Good Shepherd’s role in New Zealand continued to expand as Good Shepherd New Zealand began a partnership with Aviva to provide microfinance in Christchurch. Effectively, the risks associated with implementing a new policy that may not work, resulting in a poor reception from the public and various stakeholders, was significantly mitigated for the Government.

Interview respondents agree that elected representatives appear to have played an important role in ensuring this policy reached the agenda.<sup>359</sup> MacLennan noted that former Maori Party co-leader Dame Tariana Turia was interested in Laura Benedict’s 2011 research into microfinance,<sup>360</sup> which was also acknowledged in the Expert Advisory Group’s Working Paper on Problem Debt and Poverty.<sup>361</sup> Boston understands that at some point the Prime Minister, Hon John Key, took an interest in the policy, and Garlick noted that Social Development Minister at the time, Hon Paula Bennett, made comments that she had a personal interest in microfinance also.<sup>362</sup> Dale believes that in early discussions about the formation of Nga Tangata, Bennett “made it very clear that she could see how many benefits could flow out of this type of service.”<sup>363</sup> It is probable that Bill English, in his roles as Chair of the Ministerial Committee on Poverty and Finance Minister, had no objections to this particular policy response; he personally referenced the Governments involvement in microfinance in response to a question in the house on the measures to support people on low incomes in Budget 2013.<sup>364</sup>

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<sup>358</sup> Tim Garlick, Interview with Nicola Eccleton.

<sup>359</sup> Ibid.

<sup>360</sup> Catriona MacLennan, Interview with Nicola Eccleton.

<sup>361</sup> Expert Advisory Group on Solutions to Child Poverty, “Working Paper no. 13: Problem Debt and Child Poverty.”

<sup>362</sup> Jonathon Boston, Interview with Nicola Eccleton; Garlick, Interview with Nicola Eccleton.

<sup>363</sup> M. Claire Dale, Interview with Nicola Eccleton.

<sup>364</sup> English, “Questions for Oral Answer – Questions to Ministers.”

## **Conclusion**

The policy window that opened was most likely created in the problem stream as problem debt and child poverty became difficult to ignore. While a number of community organisations, along with Kiwibank, all played roles as policy entrepreneurs, it was CPAG that made the connections between microfinance, problem debt and child poverty. The Office of the Children's Commissioner was instrumental in ensuring that the policy was placed on the agenda of the Ministerial Committee on Poverty.

In drawing attention to a proposal as a possible solution, entrepreneurs focus heavily on a proposal's positive aspects. The following chapter outlines the weaknesses of microfinance as a policy proposal.

## **Chapter Eight - Weaknesses of Microfinance as a Policy Solution**

All policies have weaknesses as well as strengths. While the strengths of this microfinance policy were outlined as part of the policy stream discussion in chapter six, the weaknesses are included here.

### **Evidence of success**

Evaluations of NILS and StepUP in Australia find that the programmes enjoy high levels of success, but it is too early to verify whether this will also be true for New Zealand. While we refer to Australia as our ‘closest neighbour’ and have some alignment of economic strategies and values, there are fundamental economic differences that could still jeopardise the programme’s success in New Zealand. One of the most notable differences is the significantly lower wages earned by workers in New Zealand. The OECD’s 2015 Better Life Index calculated an average household net-adjusted disposable income per capita of USD23,815 per year for New Zealand and USD31,588 per year for Australia. Not only does this put New Zealand under the OECD average and Australia above it, Australians have access to, on average, almost a third more disposable income than New Zealanders.<sup>365</sup> Lower wages and lower disposable incomes suggest that New Zealanders may have less financial capacity than their Trans-Tasman neighbours. It is also possible that a less regulated lending market and lower incomes means that New Zealanders have more debt. However because there are so many different types of debt and not all debt is unmanageable, combined with significant structural differences between countries, comparing levels of problem debt is complex.<sup>366</sup> It is worth considering though, that more low income New Zealanders may struggle with loan repayments or may not have enough budget surplus to be approved for the loans in the first place.

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<sup>365</sup> OECD, “OECD Better Life Index.” <http://www.oecdbetterlifeindex.org/> (November 9, 2015)

<sup>366</sup> Hunt, “Household Debt: A Cross-Country Perspective,” 4.

While evidence of success in the Australian context is a starting point, the transferability of the programme will not be known until evidence has been gathered in New Zealand.

When gathering evidence from microfinance programmes it is inevitable that the omnipresent issue of sustainability will influence the definition of success. While the financial systems approach described in chapter three dominates the sector, success will invariably be related to the number of loans that are issued and the repayment of those loans. While significant social gains such as increased financial capability and increased social inclusion are often cited, it is doubtful that these outcomes would ensure microfinance's continued existence without the corresponding necessary financial outcomes. Voola believes that Amartya Sen's capability approach could provide an improved framework in which to evaluate programmes that have potentially competing financial and social goals.<sup>367</sup>

### **Reinforcing the Necessity of Debt**

An important weakness of microfinance as a policy is that it fails to challenge social norms surrounding debt. This is problematic because debt intrinsically carries an element of risk. Defining useful debt, debt that is offset by net wealth, debt that is able to be serviced through relatively high income and problem debt is already a complex area. Access to credit that is not just consented but enabled by government, reinforces the belief that debt is a normal and necessary aspect of life. It adds another layer of complexity to the already complex issue of debt, blurring the lines for people who are more vulnerable to problem debt and may not have the financial capability to distinguish between the various products.

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<sup>367</sup> Voola, "The Sustainability of What? The Challenge for Microfinance in Australia."

Increased access to no or low cost credit for people to purchase essential items also relieves the pressure on low incomes. The idea that people cannot access items such as fridges and washing machines that are necessary to participate in society, including by those people who are working, should apply political pressure to raise those incomes. This policy has the potential to dilute this feedback mechanism.

Some of the harshest criticism of microfinance, particularly its use in the developing world, echoes these concerns. Critics suggest that microfinance is only popular thanks to neoliberalism, because of its potential to “dampen resistance to financial sector liberalization and economic austerity policies at the community level.”<sup>368</sup>

### **Limited Ability to Compete**

The Community Finance Initiative has been referred to as an alternative to loan sharks,<sup>369</sup> however in reality it is difficult for microfinance to compete directly with third tier lenders. Third tier lenders have been known to assist clients to misrepresent their own financial situations to secure a loan, they write loans for cash and some provide credit through voracious door to door sales techniques.<sup>370</sup> With NILS and StepUP, the paperwork required to support people’s budgets makes it difficult to misrepresent people’s budgets. Good Shepherd Microfinance loans are for ‘essential’ items and payment is made directly to retailers and social service agencies are required to assess whether there is ‘capacity’ in a client’s budget to make repayments. While a third tier lender has an entirely commercial imperative, loan workers in social service agencies have different incentives.

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<sup>368</sup> Hudon and Sandberg, “The Ethical Crisis in Microfinance: Issues, Findings, and Implications,” 562.

<sup>369</sup> Ministry of Social Development, “Update on Microfinance Initiative. Report: To Hon. Paula Bennett, Minister for Social Development.”

<sup>370</sup> Garden et al., “Speaking for Ourselves: The Truth About What Keeps People in Poverty From Those Who Live It”; Walters and Fagan, “Sales Trucks Trap Unwary In Debt”; McAvinue, “Beneficiaries Targeted by Truck Shop”; MacLennan, “Mobile Truck Shops.”

They are required to consider their clients' wellbeing and be accountable for their decisions to government and philanthropic funders. Clients who are declined for a NILS or StepUP loan will in most cases still be able to access the potentially dangerous debt provided by third tier lenders.

Third tier lenders are able to meet the market demand for loans much more efficiently than this form of microfinance. The number of no interest loans that are available is constrained by the amount of operational funding that is able to be secured in a programme such as this which is not financially self-sustaining. In addition, Good Shepherd Microfinance's standard application process is intensive compared to third-tier lenders who are increasingly moving to online application processes, allowing clients to access credit within one hour.<sup>371</sup> While Good Shepherd Microfinance's standalone retail stores, Good Money, are better placed to compete directly with third tier lenders, they require a significant amount more investment as they are not provided through existing community organisations.

## **Conclusion**

The success of Good Shepherd Microfinance's programmes in Australia does not necessarily translate into the same level of success in New Zealand. The success of microfinance is overwhelmingly based on financial indicators, which may not provide a complete picture of the benefits or even disadvantages of such programmes. Government-backed microfinance for small consumption loans reinforces the necessity of debt and alleviates the pressure on low wages, producing a distorted picture of living costs. The programme has a limited ability to compete and ultimately displace predatory lenders, meaning that the problem of loan sharks will likely remain.

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<sup>371</sup> New Zealand lenders employing this method include Save My Bacon, Fast Direct Loans and Cash Relief, as at September 2015.

## Chapter Nine - Conclusion

The introduction of the government-backed Community Finance Initiative in 2014 raised the question of why some proposals reach the government's policy agenda over others, and provided the impetus to explore this question further. Microfinance in many forms has been around for many years and yet in New Zealand, this is the first example of the provision of consumption loans through a banking/NGO/government partnership.

The evidence suggests that the scale of poverty, its relationship with inequality, and how poverty is measured, are issues that are somewhat contentious. Risky third-tier debt appears to be less so. Tim Garlick, policy advisor with the Ministry of Social Development, believes that there is now a fairly broad consensus that the loan shark issue is one specific problem that needs to be addressed.<sup>372</sup> Minister Paula Bennett referred to "dodgy lenders" in a parliamentary debate when describing the microfinance initiative as a direct alternative.<sup>373</sup>

Still, problem debt does not seem to have been able to get much traction before it was associated with child poverty. CPAG and the Expert Advisory Group are responsible for placing problem debt in the context of child poverty, and providing indicators and comparisons to argue the case that child poverty could no longer be ignored. Both of these groups have a remit to draw attention to the reasons for child poverty and it is this motivation that has led to the association, rather than the converse, that advocates for problem debt have found a way to frame their problem in a way that will elicit attention.

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<sup>372</sup> Garlick, Interview with Nicola Eccleton.

<sup>373</sup> Bennett, "Questions for Oral Answer – Questions to Ministers."

The values of the National Government align with the microfinance policy, particularly limited government and personal responsibility. There appears to be few trade-offs with organised interests, as the interests of the smaller third-tier lenders are heavily outweighed by the interests of the larger, mainstream financial sector.

Kingdon argues that sometimes the strength of a policy is overlooked when trying to establish the reason it is implemented. Even accounting for weaknesses, microfinance as a policy response is backed by a body of evidence to suggest it can provide solutions, not only to problem debt, but to a range of wider issues related to financial exclusion. It can be used to increase financial independence and in doing so, prevent family violence or assist those who have already experienced it. By providing access to safe credit that would not otherwise be available along with information and advice designed to increase financial knowledge and skills, this microfinance programme could provide a multi-pronged approach to the issue of problem debt. In addition, it can provide opportunities for wider social benefits for people on low incomes. One identified weakness is that the benefits that have been noted have been achieved overseas, although that doesn't preclude beneficial outcomes in the New Zealand context.

The Community Finance Initiative is based on Good Shepherd Microfinance's partnership model with the private, government and non-profit sectors sharing both risk and costs. Critically, cost concerns have been addressed; the partnership model allowing the government to provide a relatively small amount of operational funding on the back of capital provided by the private sector. Government investment is minimal relative to the potential impact.

The political environment that included a public concerned about child poverty and a right-leaning government preferring less regulation created fertile ground for this policy response. Policy



entrepreneurs invested time and resources into promoting, even trialling the programme, and softening up the policy community.

The Expert Advisory Group listed microfinance as one of its solutions to child poverty and defined it as a solution that could be implemented without delay and at a low cost to government. The Ministerial Committee on Poverty affirmed the Expert Advisory Group's finding and reiterated that microfinance was an appropriate policy solution. It stated specifically that it would "sit well within the Government's current agenda," including the Credit Contracts and Consumer Finance Amendment Bill and a focus on financial literacy.

The opening of a policy window for microfinance has been most significantly influenced by the problem stream. When the problem stream is responsible for opening a policy window, policymakers "reach into the policy stream for an alternative that can reasonably be seen as a solution."<sup>374</sup> Even though the problem stream has created the policy window, proposals always have more chance of success if they are politically acceptable.<sup>375</sup> Once the window has been opened, the queue of policies that are waiting their turn on the agenda are prioritised.<sup>376</sup> *Agendas, Alternatives and Public Policies* includes the example of the various transport proposals that were in a decision agenda "queue" in the 1970s.<sup>377</sup> The policy that was chosen by the Carter administration ahead of the others was deemed more likely to pass, did not face wholesale opposition from interest groups, and represented a relatively "soft target" or "quick hit."<sup>378</sup> Microfinance represented a quick hit for problem debt – a strong, cost-effective policy, with few opponents. It appears that this policy's success lies in the lack of objection to its implementation, either ideological, from interest groups, or

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<sup>374</sup> Kingdon, *Agendas, Alternatives, and Public Policies*.

<sup>375</sup> Ibid., 175.

<sup>376</sup> Ibid., 167.

<sup>377</sup> Ibid.

<sup>378</sup> Ibid.

policymakers concerned with practical considerations. In reality, this policy was low lying fruit for a government open to addressing the problem of unmanageable debt.

### **Areas for Further Development**

Kingdon's theory was the focus of this research because it continues to be a very useful and relevant framework for policy studies. It has been used here to successfully analyse an aspect of the policy process for this microfinance proposal in New Zealand. This research would also lend itself to comparative politics as a way of comparing policy processes and further developing an understanding of policy processes both in New Zealand and internationally.

Cairney has used multiple streams alongside policy transfer theory in his analysis of smoking bans in the United Kingdom, and considering that this microfinance policy's origins are with Good Shepherd Microfinance in Australia, policy transfer could provide additional insight into how this policy reached New Zealand. Policy transfer posits that awareness of overseas policies and institutions influences policy development and ideas are transferred from country to country. The idea of transferring or borrowing a policy from an international context may provide new insight into the influences on the policy stream in a global system.

An institutionalist perspective may shed some more light on the role of entrepreneurs, officials and representatives, and how institutions affect the way they operate and influence others in a small country like New Zealand with its parliamentary system and proportionally elected representatives. Colebatch makes the point that modern Western societies rely on the social order that is reinforced by the idea that politicians make rational choices to solve problems.<sup>379</sup> If elected representatives are not making these decisions, what does that say about the legitimacy of our democratic system? It is

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<sup>379</sup> Colebatch, "Policy Analysis, Policy Practice and Political Science," 20.

possible that the importance placed on the role of elected officials is overstated because of the assumptions made about our political system.

The problem of ambiguity remains, whether it is a reality of policymaking or a limitation of the framework. The process seems to be quite consensus oriented; does this exclude the top-down decision-making that appears to be able to occur in New Zealand's system with its fusion of powers? Do the different streams hold different weighting in terms of their influence on the process, or is no one stream more important than the other as Kingdon asserts? All three streams are present, so does it follow that the absence of one would have inhibited this programme reaching the agenda?

### **Looking Towards the Future**

The future of microfinance will depend on its ability to provide genuine outcomes for people living on low incomes. The inherent weaknesses in the microfinance initiative could undermine its long term value to its supporters in government. The fact that people in vulnerable situations are still able to access loan shark debt at extortionate interest rates and that people working fulltime in low income jobs cannot afford to buy essential items outright are problems that remain largely unsolved. However since the start of the 12 month pilot, the Bank of New Zealand has committed a further \$50 million towards the Community Finance Initiative.<sup>380</sup> This will undoubtedly place pressure on the government to ensure that the initiative does not fall over in the absence of operational funding, and that the opportunity to provide \$50 million in affordable credit is not squandered.

It is doubtful that microfinance will address the issues that contribute to child poverty to the extent that interest groups will no longer need to draw attention to these issues. If child poverty continues to receive attention in the problem stream, the window may again open, or remain open, for new

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<sup>380</sup> BNZ, "BNZ Commits \$50 Million Community Loans."

policies that address related issues. Financial products and platforms such as microfinance, crowdfunding and peer-to-peer lending challenge the traditional ways that credit and capital is circulated, and often exclude traditional actors; in early 2016 the New Zealand Labour Party announced that it was interested in debating the merits of a UBI or Universal Basic Income.<sup>381</sup> A UBI would guarantee an unconditional payment to all New Zealanders, effectively supplanting the government's traditional model of 'transfer payments' that provide social welfare to society's most vulnerable.<sup>382</sup>

This policy analysis provides knowledge that emboldens some informed speculation on whether a policy such as UBI could achieve agenda status and under what conditions. The problem stream consists of relatively low wages, child poverty and continually reducing job security. Influences on the political stream may include: the permissive environment for alternative methods of distributing money; the reduction of bureaucracy for those on the right; a broad cross-partisan values consensus on the existence of social welfare in New Zealand; and if in government, a Labour Party that has been at relative ease with significant policy changes in the past. In the policy stream there are apparent advantages to such a policy, including reduced effective marginal tax rates removing barriers to employment and an operationally simpler model of welfare. Currently the most significant flaw in the policy stream appears to be the difficulty determining the amount that would have to be paid to remove the need for additional welfare top ups while maintaining incentives to work, and the cost of such a policy. If the streams were coupled the problem stream may, as in the case of microfinance, push open a policy window through which the policy could be pushed.

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<sup>381</sup> Crayton-Brown, "Labour Promises Basic Income Debate."

<sup>382</sup> Further discussion on UBI from some of New Zealand's most well-known and prolific economic commentators can be found on the following websites: [www.thebigkahuna.org.nz](http://www.thebigkahuna.org.nz) [www.offsettingbehaviour.blogspot.com](http://www.offsettingbehaviour.blogspot.com) and [www.interest.co.nz](http://www.interest.co.nz)

While this microfinance case study is explanatory rather than predictive, the example above illustrates how its findings can be useful for shaping further discourse on related policies.

### **Applied Policy**

The importance of this research is that it adds to our understanding of applied policy research in New Zealand. It reaffirms the argument of Colebatch when he states that the discord between theorists and practitioners is misplaced. Well-constructed, reliable theories of the policy process provide guidance for practitioners about the appropriate parameters of their analysis. In the real world, in which practitioners cannot possibly, to repeat Sabatier, 'look for, and see, everything,' theories provide practitioners with a credible rather than arbitrary reason for determining which factors are important and which are not.

This research sheds light on the possibilities and limitations of microfinance as a solution to some of the problems it has been touted as resolving. It also provides valuable insights at a practical level for those wishing to better understand how policies reach the agenda. Actionable outcomes, as described in chapter two, can be derived from this research. For those whose goal is to affect policy outcomes by pushing for a particular policy solution, there are opportunities to be policy entrepreneurs, by defining problems and linking them to solutions, especially for those that have the energy to persistently promote their cause.

Applying a multiple streams framework to a specific, real world policy example allows the complex policy arena to be analysed in a manageable way. The findings support the general theoretical idea that streams have converged and a policy window has opened for microfinance. More importantly, it shows that applied policy research can be used to provide understanding and insight into how agendas are set.

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## ***Appendix A: Case Study Protocol***

### **Overview of the Case Study – Section A of protocol**

This case study follows the Community Finance Initiative, a microfinance initiative introduced in Auckland with the aim of providing safe and affordable finance to financially excluded and low income New Zealanders. Microfinance has been particularly associated with improving outcomes for low income families with children, due in part to advocacy from groups such as the Child Poverty Action Group (CPAG). The Community Finance Initiative provides NILS and StepUP loans.

Before the government's involvement, there were two other schemes providing NILS loans. The Nga Tangata Microfinance Trust was the first provider of NILS loans in New Zealand, and has been disbursing loans in South Auckland since 2011 with capital provided by Kiwibank. The second is Aviva NILS in Christchurch, which also uses capital from Kiwibank, with operational funding provided by the Good Shepherd New Zealand Trust.

Good Shepherd Microfinance in Australia owns the NILS and StepUP brands and has accredited Nga Tangata, Aviva and the Salvation Army to provide these programmes in New Zealand and will provide the relevant support that is offered to their accredited providers. Good Shepherd Microfinance has also commissioned a large amount of research on microfinance, which will be included in the literature review.

NILS is described as a scheme that “provides individuals and families on low incomes with access to safe, fair and affordable credit”.<sup>383</sup> The scheme has its origins in the work of the Sisters of the Good Shepherd in Victoria, who began giving loans to people for essential items in the early 1980s. The NILS

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“The No Interest Loan Scheme - No Fees Interest or Charges.”

network in Australia consists of more than 250 providers in over 650 locations. It is now a collaboration between the National Australia Bank (NAB), the Australian Government Department of Social Services, the Victorian and Queensland Governments, and the accredited providers themselves. StepUP is also a partnership between these agencies, although is less widely provided. Success in Australia has been a factor in microfinance being identified as a possible policy solution in New Zealand.

John Kingdon's multiple streams theory will be used to provide the theoretical framework for this study. He posits that three streams - the problem stream, the policy stream and the political stream – converge to push a particular idea onto the policy agenda. It is the convergence of the three streams that is the key aspect of his theory; without one of the streams an issue is much less likely to reach the agenda. The level two questions outlined in Section C of this protocol link this framework to the data.

While the primary audience for the report is academic, some of the stakeholders in microfinance in New Zealand may also be interested in this report. An executive summary of the findings for those stakeholders is planned on completion of this thesis.

### **Data Collection Procedures – Section B of protocol**

Required data will be found in official documents, publicity material as well as media coverage. Information may also need to be obtained through the Official Information Act process, as well as Hansard transcripts. Official Information Act requests need to be made as soon as possible as required information may require longer than 20 days to collate, meaning that information can take longer to be provided. It may be important in some cases to note that some of the information will have been provided for a specific audience and a specific purpose.

A database of evidence will be compiled, which will exist separately from the report. Documents will be collated as an annotated bibliography and interviews will be transcribed.

The issue of participant observer in the research needs to be considered during data collection, as the researcher has the dual role of researcher and employee in the Aviva NLS programme.

## **Supervision**

Regular meetings as per timeline below will be held with an academic supervisor for feedback and guidance. Academic supervisors are also able to be contacted by email to answer specific questions more regularly.

Weekly paragraph update to supervisor on what has been completed.

Skype/messaging meeting – mid February 2015

Skype/messaging meeting – mid April 2015

Skype/messaging meeting – mid July 2015

In person meeting – Early November 2015

## **Schedule and chapter outline**

End March 2015 – Chapters four, five completed.

End June 2015 – Chapters two, three completed

End October 2015 – Chapter six, seven completed

End December 2015 – Chapter one, eight and nine completed

## **Data Collection Questions – Section C protocol**

The audience for what Yin refers to as ‘Level 2’ questions is the researcher, and the questions are designed to reflect the line of inquiry.<sup>384</sup> Importantly, these questions allow the researcher to focus on what questions they are looking to answer from this study.

### **Interview Questions**

A relatively short case study interview, such as the one hour interviews that are planned for this study, are likely to stay closely aligned to the case study protocol.<sup>385</sup> The Level 2 questions outlined in the protocol will provide the structure for the interviews, and ensure that while the questions will be flexible, they remain focussed. The Level 1 questions will be the basis for the questions asked of the interviewee, however they will remain flexible and able to be tailored to each individual situation.

McNamara provides some detailed guidelines for conducting research interviews. These include providing information such as on the following information sheet, and recording interviews if possible and the interviewee consents. He urges caution when using ‘why’ questions in interviews because they may suggest causal relationships that aren’t there, and may cause the respondent to feel that they have to justify themselves.<sup>386</sup>

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<sup>384</sup> Yin, *Case Study Research*, 2014, 89.

<sup>385</sup> Ibid., 111.

<sup>386</sup> McNamara, “General Guidelines for Conducting Research Interviews.”

Link to theoretical proposition from research design	Level 2 questions (questions researcher asks themselves: Yin)	Assumptions / Keywords	Possible sources of data
Problem stream	What are the problems that have been identified?	Financial hardship, financial exclusion, access to credit, poverty, child poverty, loan sharks, lack of financial capability	Media articles, press releases, websites, OIA requests from government departments. Quantitative data from Statistics NZ, CPAG, MSD.  Interviews
	Who has identified these as problems? What messages are being promoted?	CPAG, MSD, Treasury, Nga Tangata, Aviva?	
	Why have these problems been identified as important compared to other problems? Are they perceived as pressing?	Levels of poverty, loan sharks etc comparative to other countries? Comparative to our own history? Impact of problem on society.	
Policy stream	How will microfinance solve these problems? What does research on microfinance claim to achieve?	Provide alternatives to loan sharks, increase individuals' financial capability,	Research literature, government department releases, evaluation reports  Interviews
	Why is microfinance preferable to the alternatives?	Compare with alternatives, programmes financially sustainable, operationally sustainable.	Research literature  Interviews

Politics stream	<p>What is the political environment? Who are the organised interest for? Against?</p> <p>What is the 'national mood'? Politicians' ideology?</p>	<p>Centre-right ideology, 'hand up not hand out' framing, role of minister, role of interest groups, interests for – CPAG etc. Interests against?</p>	<p>Government reports, party campaign publicity, lobby group statements</p> <p>Interviews</p>
Policy window	<p>Has a window opened? How can we tell – where is microfinance on the agenda? If not, will one open – can we make a prediction based on the problem and political streams?</p>	<p>Microfinance has reached the agenda</p>	<p>Government reports, Hansard transcripts.</p>

Link to theoretical proposition from research design	Level 2 questions (questions researcher asks themselves: Yin)	Level 1 questions for Interviewees
Problem stream	What are the problems that have been identified?	<p>Unmanageable debt has been identified as a problem for low income households. What is it about problem debt that is important compared to other problems?</p> <p>Who else do you think also identifies this as a problem?</p> <p>Prompts: The link to child poverty – why?</p> <p>Do you think the public believes there is a problem? ('national mood')</p>
	Who has identified these as problems?	
	What messages are being promoted?	
Policy stream	Why have these problems been identified as important compared to other problems? Are they perceived as pressing?	<p>How will microfinance address problem debt? Prompt: Is it competition for payday lenders?</p> <p>What is it about microfinance that makes it a preferable to alternative policies?</p> <p>Thinking about some of the alternative policies that are available, which ones would you have liked to see succeed that didn't, and why do you think they didn't?</p>
	How will microfinance solve these problems? What does research on microfinance claim to achieve?	
	Why is microfinance preferable to the alternatives?	

Politics stream	<p>What is the political environment? Who are the organised interest for? Against?</p> <p>What is the 'national mood'? Politicians' ideology?</p>	<p>The current National government has agreed to provide some funding for microfinance. Do you think there is an ideological alignment for National?</p> <p>Do you think there is an element of opposition to microfinance?</p> <p>Do you think the role of early adopters in the field, such as Nga Tangata, had any influence on the process of decision-making?</p> <p>Prompt: private, public sector already involved – current focus on private, public partnerships</p>
Policy window	<p>Has a window opened? How can we tell – where is microfinance on the agenda? If not, will one open – can we make a prediction based on the problem and political streams?</p>	

#### Interview questions



## **Guide for the case study report – Section D of protocol**

The primary audience for the report is academic and this dictates that the report be detailed and thorough, including a literature review, section on methodology and a bibliography. An executive summary of the main findings of the research is planned.

### **Research Design**

#### *Case study question*

How and why has microfinance reached the New Zealand policy agenda?

#### *Theoretical proposition*

The problem of financial hardship, the policy of microfinance and the political context have converged to propel microfinance onto the policy agenda.

#### *Unit of analysis*

Good Shepherd's microfinance programme in New Zealand. The programme is currently offered through three providers: Aviva NILS in Christchurch, Nga Tangata Microfinance in Auckland and the Salvation Army in Auckland.

#### *Analytic strategy*

Build explanations using narrative and reflecting the theoretical proposition.

### **Case Study Tactics**

Yin describes the case study tactics that can be used to enhance the validity and reliability of the research. The stages of research and Yin's tactics that should be used during each stage are outlined below.

Phase	Tactics	Assists with
Data collection	Use multiple sources of evidence, establish chain of evidence	Construct validity
Data collection	Use case study protocol, develop case study database	Reliability
Data analysis	Do pattern matching, do explanation building, use logic models	Internal validity
Research design	Use theory in single-case studies	External validity